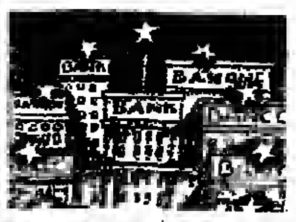
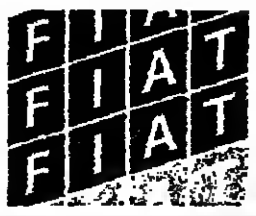
FINANCIAL TIMES



European banking
Ever ripe for restructuring
Peter Martin, Page 8

Ariane 5
Why did it blow up?
Page 17



Fiat
Tensions over the succession
Page 11

The Philippines
Farewell to a stock market reformer
Page 14

World Business Newspaper THURSDAY JULY 25 1996

Compaq earnings forecasts bolster technology sector

Compaq, the world's leading personal computer maker, brought the US technology sector some much-needed good news with forecast-beating second-quarter earnings and an upbeat view of the rest of the year. Despite fierce price-cutting, margins increased and helped lift earnings per share 8.7 per cent to 96 cents compared with 90 cents a year ago, and analysts' forecasts of only a 1 cent improvement. Group net income was up 8.5 per cent at $267m. Page 11; World stocks, Page 30

China and US set up top-level meetings: The US and China announced a series of high-level visits to take place this year, as part of moves to revive closer links, which could result in an eventual formal summit. A senior US official said the visits were agreed during a "productive" meeting between US secretary of state, Warren Christopher (above), and his Chinese counterpart, Qian Qichen. If President Bill Clinton is re-elected in the November elections, further talks aimed at an exchange of state visits in 1997 or 1998 may be held. Page 3

Glaxo faces action over Aids drug: Emory University of Atlanta, has filed a patent suit against Glaxo Wellcome, the UK's largest pharmaceuticals company, and its Canadian partner, Biochem Pharma, over the Aids drug Epivir. Emory University claims it has a patent that covers Epivir and is seeking damages for the sale and distribution of the drug. Page 16

Brussels warns on nationality prejudice: The European Commission has warned that European Union member states which prevent majority foreign ownership of audit firms by discriminating on the grounds of nationality could face court action. Page 2

Sumitomo Bank said it had extended loans to Sumitomo Corporation to help the Japanese trading house cope with an estimated $1.8bn in copper market losses. Page 10

Volvo, the car and truckmaker, launched one of Sweden's biggest share offerings by offloading two-thirds of its 14 per cent stake in Swedish-US drugs group Pharmacia & Upjohn for $1.84bn. Page 11

Virtuality profit delayed: Shares in Virtuality fell sharply, closing 56p down at 177p, after the UK-based virtual reality pioneer warned that a product shipment hold-up had delayed its move into profitability. Page 16

Sri Lanka bomb kills at least 70: At least 70 people were killed and more than 300 wounded after two bombs ripped through a packed commuter train in the Sri Lankan capital Colombo. Page 3

Banco Santander, Spain's leading and most international banking group, produced first-half consolidated earnings which were above expectations, lifting attributable net profits by 13.2 per cent to Pta45.9bn ($358m) compared with the first half of last year. Page 12

World Service wins fresh review: Campaigners against a plan to reorganise the BBC World Service claimed their first success after the BBC agreed to a proposal by the Foreign Office for a joint study of the proposed reforms. Page 6

Bosnia and Serbia renew telephone links: Bosnian and Serbian officials agreed to restore telephone and transport links between the two countries for the first time since war erupted in Bosnia four years ago. Page 2

Bayerische Vereinsbank began the interim results season at German banks with a 24 per cent rise in first-half operating profits to DM665m ($446.4m) after risk provisions. Page 13; Peter Martin column, Page 8

Bank of England to expand watchdog role: The Bank of England is to hire 100 people, raise pay for specialist staff and spend an extra £8m ($12.5m) a year to strengthen banking supervision after the collapse of Barings bank. Page 20

Stagecoach, UK transport group, has been chosen as the preferred bidder for Swebus, the largest bus operator in the Nordic region. If the sale goes through it would be likely to raise in excess of SKr1bn ($151m). Page 16

Overhaul of Italian education proposed: Italy's centre-left government plans to raise the school-leaving age from 14 to 16 as part of an overhaul of the country's educational system. Page 2

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,358.02	(+11.47)
NASDAQ Composite	1,043.69	(-5.38)
Europe and Far East		
CAC40	1,954.10	(-28.13)
DAX	2,447.80	(-27.27)
FT-SE 100	3,868.8	(-39.6)
Nikkei	20,631.03	(-532.66)

US LUNCHTIME RATES

Federal Funds	$5\frac{1}{4}$%
3-mth Treas Bills: Yld	5.29%
Long Bond	$87\frac{3}{32}$
Yield	6.976%

OTHER RATES

UK: 3-mo Interbank	$5\frac{3}{4}$%	(same)
UK: 10 yr Gilt	$97\frac{3}{8}$	($97\frac{1}{8}$)
France: 10 yr OAT	106.32	(106.25)
Germany: 10 yr Bund	98.95	(98.86)
Japan: 10 yr JGB	97.8934	(97.4822)

NORTH SEA OIL (Argus)

Brent Dated	$19.335	(19.50)

GOLD

New York: Comex		
(Aug)	$386.3	(385.5)
London:		
close	$384.4	(383.7)

DOLLAR

New York: lunchtime		
£	1.56255	
DM	1.48955	
FFr	5.046	
SFr	1.21455	
Y	108.335	
London:		
£	1.5542	(1.5509)
DM	1.4877	(1.4897)
FFr	5.0398	(5.0422)
SFr	1.2122	(1.2128)
Y	108.62	(107.955)

STERLING

DM	2.3121	(2.3104)
Tokyo $ close:	Y 107.80	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lis 15.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12		
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65		
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00		
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250		
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20		
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70		
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£85.00		
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750		
France	FFr12.00	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L80,000		
		Lebanon	LL3,000			UAE	Dh12.00		

Hostility eases as Russia's security chief rules out objections to eastward expansion

Growth of Nato poses no threat, says Lebed

By Chrystia Freeland in Moscow

Mr Alexander Lebed, Russia's top security chief, yesterday said he had no objections to Nato's planned eastward expansion, in a strong sign that the Kremlin's hostility to the plan may be fading.

Mr Lebed, who came third in last month's presidential ballot, campaigning on an assertive nationalist ticket, said Nato enlargement would be expensive and unnecessary but that it did not pose a security threat to Russia.

"This mighty Nato fist is being developed to battle the air," Mr Lebed, a retired general who is now chairman of Russia's Security Council, said.

The subject of the west's military alliance and its stance towards Russia was one of several he touched on in a wide-ranging interview with the Financial Times.

The career soldier who has blazed his way into national politics in the past five weeks also spoke of his concerns about the economy, his campaign against corruption, his relationship with President Boris Yeltsin and political aims in the coming months.

'We have a financial crisis already and a banking crisis is on the horizon'

Mr Lebed, who hopes to expand his brief to include issues of "economic security", was sharply critical of the Russian economy, despite the warm praise western economists have offered for the country's progress towards market reform.

"One fine day not too far off we risk a social revolt," Mr Lebed warned. "If we do not begin to take energetic steps, then in the autumn we can expect a serious economic crisis. We have a financial crisis already and a banking crisis is on the horizon."

He also warned that his pet project, the campaign against corruption, will only be successful if Russia undertakes a major redistribution of the fruits of market reforms.

"Probably the biggest reason today [for corruption] is mass unemployment, mass poverty of the people," he said. "We must give these people the opportunity to work, to earn money, to support their families ... if we do not take these measures then no police force, no internal army will be enough. We could reach an absurd situation where half of the country is criminals and the other half is policemen chasing after them."

In an hour-long discussion the tough-talking general, who prides himself on having served in almost all of the nation's hot spots over the past 20 years, also revealed a personal vulnerability. He refused to allow his photographer to the interview because of his sensitivity to pictures which often lend him a thuggish air.

It is an image which he is

Continued on Page 10
Fatalist in line of fire, Page 9

Alexander Lebed was sharply critical of the Russian economy: "One fine day not too far off we risk a social revolt," he warned Picture: Reuter

Emu fears may spark Danish banks move

By Hilary Barnes in Copenhagen and Gillian Tett in London

Danish banks are considering moving some operations to Frankfurt or Luxembourg because of fears they would be at a competitive disadvantage if their country stays out of the European monetary union.

They are concerned their effectiveness in the money markets and other international banking operations would be weakened if they did not have full access to the euro payments and settlements system, known as Target.

Mr Thorleif Krarup, chief executive of Unibank and chairman of the Danish Bankers' Association, said: "[Moving] will become urgently necessary if we are to stay competitive against banks which are able to use Target."

His statement provides some of the first evidence of growing business concern that Target will be used to discriminate against countries staying outside Emu. Until recently, countries such as the UK and Denmark assumed they would be able to participate in Target on an equal footing with those countries inside Emu.

But at a meeting of central bank governors this month, French and German officials insisted that banks in countries outside Emu should face restrictions on their access to liquidity in euros. They fear that without these restrictions Target's role as a tool of monetary policy would be threatened.

The final decision on these restrictions will not emerge until 1998, although a preliminary report on Target will be published by the European Monetary Institute next month.

Some European banking officials insist these restrictions will be limited. One said: "If Danish banks are thinking of moving, that seems an over-reaction."

Nevertheless, the French-German position was a significant blow to countries like the UK and Denmark. Mrs Bodil Nyboe Andersen, governor of Denmark's Nationalbank (the central bank) admitted this week it would mean that Denmark

Continued on Page 10

Brussels censures US oil sanctions bill

Retaliation considered as Clinton set to sign law penalising investment in Iran and Libya

By Guy de Jonquières in Brussels

President Bill Clinton will sign legislation imposing sanctions on foreign companies investing in Iran and Libya despite strong objections from its European partners.

The European Commission yesterday condemned the law, which targets the two countries' oil and gas industries, as "unacceptable".

A Commission spokesman said the European Union was still analysing the detailed provisions of the bill, passed by the US Congress on Tuesday, "but it is clear that this remains an unacceptable piece of extraterritorial legislation". Although the White House has worked closely with Congress to soften the legislation, the wording has in the past few days been toughened up to compel the US president to impose sanctions on offenders.

The spokesman said the EU might meet any threat which the legislation posed to European economic and commercial interests by using retaliatory measures being drawn up in Brussels in response to the US Helms-Burton Act. This aims to penalise foreign companies "trafficking" in Cuban assets confiscated from US owners.

He said that nothing in the EU's proposed measures limited their application to Helms-Burton cases, and that the Council of Ministers could decide to amend the proposals specifically to cover problems raised by the Iran-Libya legislation.

The economic implications of the Iran-Libya legislation for the EU are potentially much bigger than those of the Helms-Burton Act, because it is aimed at countries which supply about a fifth of Europe's energy needs, and in which the European oil industry has large investments.

The 20 commissioners yesterday discussed a draft EU blocking statute designed to shield European companies affected by Helms-Burton but deferred a final decision until next week, following a British threat to veto the proposal if it threatened to encroach on EU members' sovereign rights.

Britain has asked for several more days to study the draft statute. However, EU officials said that whatever the UK decided, its last-minute intervention had served only to strengthen the commissioners' determination to press ahead with the draft statute in its current form.

In London, the Foreign Office said the law was unacceptable. "We have vigorously lobbied against this legislation, both bilaterally and with our EU partners. We agree there should be a common western policy on Iran and Libya, but we can't accept US pressure to impose sanctions under threat of mandatory penalties on our companies."

The bill, which has a five-year life, prescribes options for penalising companies which make new investments in Iran's and Libya's energy industries. EU officials said its severity was likely to depend on precisely what the US defined as new investments.

Italy's foreign ministry said yesterday it fully supported the EU stand against the bill, which could affect activities of the state-controlled oil company Agip.

US politics sets tone, Page 4

Markets shaken by Wall St and Tokyo

By Our Financial Staff

Volatility on Wall Street and tumbling share prices in Tokyo led the world's equity markets on a rollercoaster ride yesterday, accentuating the unsettled, bearish mood that has gripped markets over the past two weeks.

Wall Street plunged at the opening, with the Dow Jones Industrial Average losing 76 points in the first half hour, on top of Tuesday's 44.39 point decline.

But the fall prompted bargain-hunting, and by noon New York time the Dow was up more than 30 points on the day. After climbing back to gain 7.40 points by 1pm, when it stood at 5,353.95, the index softened by late afternoon, to show a fall of 18.49 at 5,328.06.

New York's poor opening cast a gloom over European markets, which fell heavily. But they closed off their worst levels of the day in response to the early stages of the Dow's rally.

In London, the FT-SE 100 index, down almost 65 points at its worst, ended down 39.6, or 1.1 per cent, at 3,868.8. London was also concerned by a higher-than-expected rise in Britain's June retail sales. Dealers said this lessened the possibility of a further interest rate cut.

In Germany, the Dax index closed 29.69 lower at 2,459.13, while in Paris the CAC-40 index lost 28.13 to 1,954.10. In Zurich, the SMI index fell 102.6, or 2.9 per cent, to 3,482.6, the biggest European market drop of the day. In Tokyo, the Nikkei 225 index fell 532.66, or 2.52 per cent, to 20,631.03.

Wall Street's early plunge was focused heavily on technology stocks, which have been battered all week despite strong earnings on Monday from software company Microsoft. But sentiment may have been helped yesterday by better-than-forecast earnings from Compaq, the personal computer manufacturer.

In Tokyo, Mr Wataru Kubo, finance minister, said the government planned no action to halt the decline in share prices, which have fallen 9.3 per cent from their peak this year of 22,750.7, reached on June 26.

Japanese companies are turning to the stock market for equity financing at their highest rate for more than five years.

They raised Y2,557.3bn ($23bn) from issues of shares and convertible bonds in the first six months of the year, comfortably more than the Y2,239bn raised during the whole of 1995. Most are using the cash raised for capital investment. Report, Page 11

World stocks, Page 30

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LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Brussels adopts hard line on audit firms

EU states could face legal action if they block foreign ownership on grounds of nationality

By Jim Kelly, Accountancy Correspondent

European Union member states which prevent majority foreign ownership of audit firms by discriminating on the grounds of nationality could face court action, the European Commission warned yesterday.

"This is reading the riot act in Brussels terms," said a leading European auditor. "They are saying that the laws must be liberalised to comply with existing directives or they will go to the European Court."

Many member states restrict majority ownership of audit firms by foreign auditors – often by only recognising national qualifications. Brussels says they must not discriminate in this way.

The warning comes in a green paper on the future of auditing in the EU. It says member states "should" be asked to remove restrictions. The word has been changed in the final draft from "could", indicating a toughening of attitudes on the issue.

Generally, the green paper will be welcomed as recognising the need to create a genuine single market in statutory audit services. Mr Mario Monti, single market commissioner, said the lack of harmonisation handicapped the EU.

The paper seeks a European-wide definition of the audit, of the audit opinion, and an accepted corporate governance structure, including audit committees and systems of internal control. "It's a long-term call for a European version of the Cadbury report on governance," said one UK auditor.

On the independence of the auditor the paper looks to the profession to establish a core set of principles and regulation. The paper pointedly does not support suggestions that independence can best be guaranteed by removing restrictions and relying on market forces alone.

"We are quite encouraged. This paper begins to paint a vision of the auditor which responds to the dynamic needs of the international capital market," said Mr Marek Grabowski, technical audit partner at Price Waterhouse, London.

There will be disappointment that the paper steps back from championing reform of the law of professional liability which auditors consider unfair. It is understood the Commission feels the profession still needs to prove its case. It also considers reform highly complex.

The paper also seeks to make sure the EU has an input into the future setting of international auditing standards – in tandem with its increasing influence in the development of international accounting standards. It appears the Commission is willing to liaise with existing self-regulatory standard setters.

Mr John Heggarty, head of the Fédération des Experts Comptables Européens, the umbrella body for European accountants, said: "We are pleased it recognises international harmonisation rather than simply Europe alone. But it is disappointing it seems to rule out action on liability."

The Commission is seeking comments before October 18.

Rivals to challenge Air France ruling

By Neil Buckley in Brussels and Michael Skapinker in London

The European Commission could face new legal challenges from Europe's airlines after its approval yesterday of the final, FFr5bn ($1bn), tranche of a FFr20bn aid package to Air France, the loss-making state airline.

It endorsed a recommendation from Mr Neil Kinnock, transport commissioner, that the third slice of aid should be paid, although France agreed to pay FFr1bn of the money into a blocked account pending a further report on the company's restructuring programme and 1996 results by March.

British Airways, KLM of the Netherlands, Scandinavian Airlines System and British Midland already have cases pending in the European Court against the Commission's original authorisation of the three-stage package in 1994.

All vowed to press ahead with their actions, despite Mr Kinnock's insistence that state aid was justified to secure Air France's viability, and that the airline had met the conditions imposed on it.

Yesterday, the German airline Lufthansa, which did not challenge the Commission's original decision, said it was considering legal action over approval of the third tranche. British Airways said it would examine the latest grant and would bring an additional action against if necessary.

BA said airlines should stand "on their own two feet", while British Midland called the Air France aid "grotesque".

Rivals say Air France remains over-staffed, pays workers more than industry averages, and is not achieving performance targets set in 1994. KLM, Lufthansa and SAS also complained to the Commission this year that the airline was using state aid illegally to undercut their fares.

Mr Kinnock yesterday rejected the claims of predatory pricing by Air France on 21 out of 26 routes cited by competitors. Only on routes to Stockholm, Gothenburg, Oslo, Copenhagen and Amsterdam had Air France been found to offer the lowest fares, and these had been temporary promotions.

Mr Kinnock added that Air France had met the principal conditions imposed on it in 1994, including reducing assets – partly through sale of the Meridien hotel chain to Forte in 1994 – and aircraft purchases, and cutting costs and 5,000 jobs. It was also taking steps to ensure proper access by competitors to Paris's Orly airport, another source of complaint.

He said he would decide whether to investigate the planned L1,500bn ($1bn) capital injection into Alitalia, Italy's state-owned airline, as sooo as he was formally notified of it.

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Bosnia and Serbia take new step forward in peace process

By Laura Silber in Belgrade, Bruce Clark in London and agencies

Bosnian and Serbian officials yesterday agreed to restore telephone and transport links between the two countries for the first time since war erupted in Bosnia four years ago.

Both sides welcomed the agreement, which was reached after a landmark visit to Belgrade by a Bosnian trade delegation, and said it was a step forward in the Dayton peace process which would help stabilise the region.

However, the fragility of the reconciliation process was underlined by a warning from a senior US intelligence official that war could resume in former Yugoslavia unless some form of western military presence is extended through next year.

General Patrick Hughes, the director of the Defence Intelligence Agency, told US Senators that an international force would be needed well beyond December, the date by which President Bill Clinton has promised to terminate the US mission in Bosnia.

"Without such continued [international] engagement, it is in my opinion likely the former warring factions will turn once again to violent conflict in an attempt to achieve their aims," he said.

In Belgrade, Bosnia's Vice-President Ejup Ganic, who led the trade mission, said after two days of talks: "We signed a protocol in which we established communications between the two countries: telephones, railways, airlines and roads."

The foreign ministers of Serb-led Yugoslavia and the Moslem-Croat federation also signed an agreement which would allow civilians to travel freely without visas between the two countries.

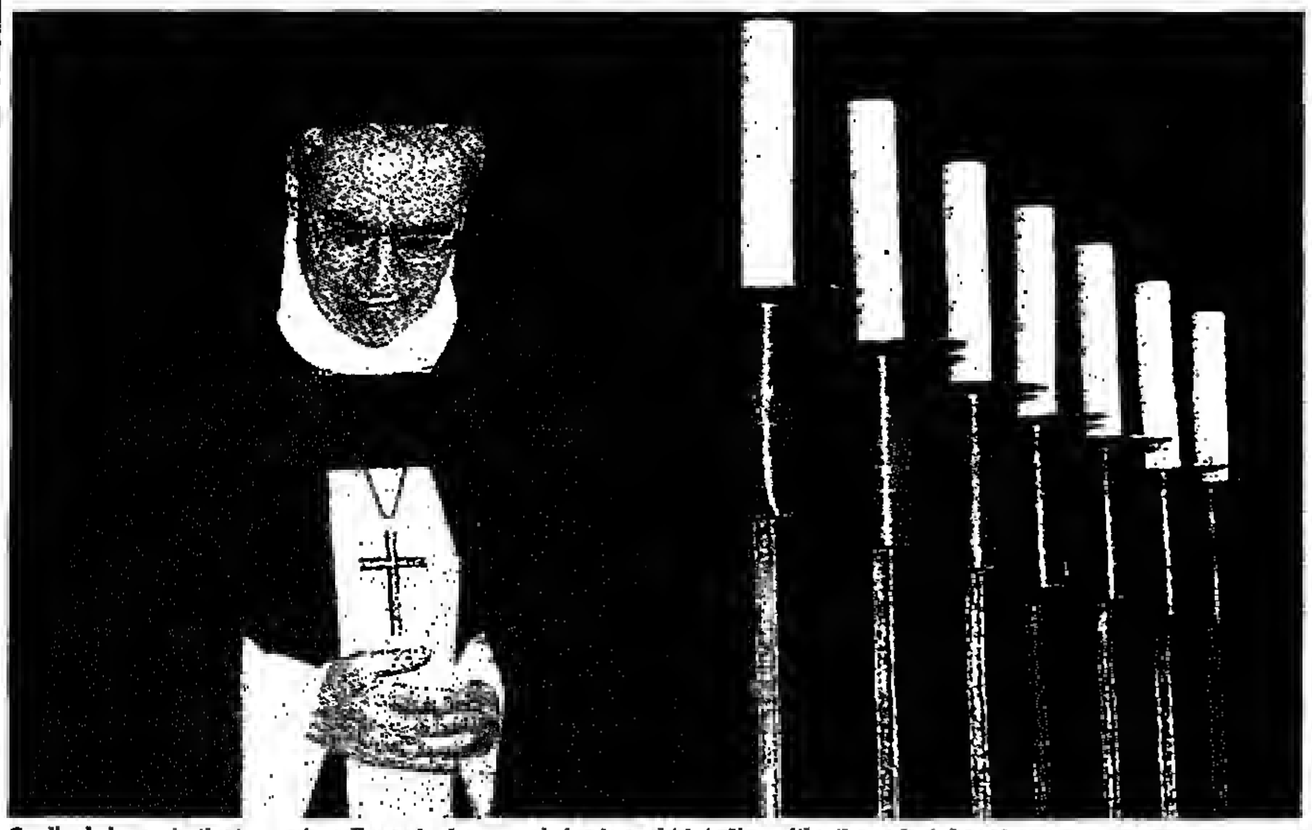
Officials said the Bosnian and Serbian sides were also close to an agreement on an exchange of trade offices between Belgrade and Sarajevo.

The trade agreements apparently enjoyed the blessing of the US, which has offered conditional support to Serbia's President Slobodan Milosevic as part of its campaign to isolate his rivals in the Bosnian Serb leadership.

Observers said the trade deal might be difficult to implement in practice. All direct routes between Belgrade and Sarajevo pass through Republika Srpska, the Bosnian Serb entity, which comprises one half of Bosnia.

In London, a delegation led by Mr Vuk Ognjanovic, the finance minister of Serb-led Yugoslavia, opened a new round of talks with the London Club of banks on the possibility of a deal to reschedule Belgrade's commercial debt.

This week's talks mark the second attempt to reach agreement after an initial, inconclusive round of negotiations in June.



Cardinal change in the tax regime: France's clergy are being brought into line with other salaried workers AFP

France's priests told they must pay extra for earthly reward

By Andrew Jack in Paris

France's priests may prefer to concentrate on spiritual matters, but from the start of next year they will have to make a more material contribution to their nation's struggling social security system.

Under the terms of an official decree just published by the government, some 18,000 working and retired priests will be required for the first time to pay the same social security charges that are levied on salaried workers.

As part of attempts by Mr Alain Juppé, the prime minister, to reform the country's deficit-ridden social security system, ministers of religion are among more than 30 "special regimes" of workers with separately-managed retirement and health insurance schemes.

In the spirit of French egalité and a Republican disdain for any special privileges granted to the church, they will have to pay 2.4 per cent of their income towards the CSG generalised social contribution and an extra temporary 0.5 per cent deficit reimbursement payment.

There was no indication from church organisations yesterday that the move would provoke strikes or protests like those last November and December triggered by the government's proposed reforms to the railway workers' special regime.

Officials who run the Roman Catholic church's health insurance fund are in negotiation with the government over a compensatory reduction in the premiums paid by retired priests.

In common with several other special regimes suffering from the legacy of France's ageing population, a diminishing number of working priests is supporting a growing number of retired brethren.

The church's retirement fund pays out some FFr1.3bn ($260m) a year in pensions, but receives just FFr230m in contributions from working priests. Apart from a small income from investments, most of the difference is made up by solidarity payments from other social security funds.

One official yesterday expressed scepticism that the government's initiative was anything other than symbolic. He stressed that most priests received the national minimum wage – less than FFr6,000 a month – which means that the additional payments they make will be modest.

Working priests currently pay FFr13,488 each year in health insurance premiums and FFr8,476 in retirement contributions to their schemes, while retired priests pay FFr6,744 for health cover and receive a maximum pension of FFr23,171 a year.

Overhaul of Italian education proposed

By Robert Graham in Rome

Italy's centre-left government is planning to raise the school-leaving age from 14 to 16 as part of an overhaul of the country's educational system.

The plans, due to be detailed next week, aim to link education much more closely to the needs of the economy, to combat rising youth unemployment. Adult education will also be improved to allow people a greater chance of retraining and skill up-grading.

Italy is the last of the European Union countries with a school-leaving age of 14. Raising it to 16 will remove that anomaly, while also alleviating the problem of joblessness among the 15- to 17-year-olds.

Italy's educational system has failed to come to terms with a declining school population and a rise in the number of teachers. The number of primary school pupils has declined by 35 per cent over three decades, while teachers have increased by more than 15 per cent. As a result, pupil-teacher ratios are the lowest in Europe – 12-1 in primary schools and 9-1 in secondary education.

Previous governments have been under pressure to cut teacher numbers, but the hope now is that the cost of extending the school-leaving age – combined with a greater effort in professional training and adult education – can be met partly by more rational use of existing resources.

Resources will be better used, the government believes, by devolving management of education to regional authorities. The education ministry will retain control over policy and inspection and will co-ordinate with the labour ministry to eliminate duplication and poor liaison on professional training and technical colleges.

Improved professional training and retraining programmes are likely to be funded in part by giving new fiscal incentives to companies.

Political parties, trade unions and employers' organisations have responded positively. The main problem is likely to come from the entrenched interests of the large number of teachers who are reluctant to accept any change.

The government has already announced it will make important changes in higher education. Universities will acquire genuine autonomy, while university teaching jobs will become far more competitive, with individual performances subject to greater scrutiny.

The universities themselves will be able to establish closer links with industry and new incentives will be available to stimulate greater research and development expenditure. Italy's R&D spending is almost half the average of its partners in the Group of Seven industrial countries.

Energetic Aznar gets Moncloa moving

Spain's new PM is a fast operator and likes people to know it, writes Tom Burns

In the grounds of the Moncloa Palace, the sprawling complex of buildings on the western outskirts of Madrid that includes the Spanish prime minister's official residence, a paddle tennis court bas been erected and the arbour that boused more than 200 bonsai trees is empty.

It is nearly three months since Mr José María Aznar, leader of the centre-right Popular party, moved into what for nearly 14 years had been home of Socialist premier Mr Felipe González, and the changes go well beyond landmarks in the Moncloa's garden.

Mostly it is a matter of pace and of visibility. Mr González, who is temperamentally reclusive, spent increasingly long periods tending his bonsai collection. The building's new incumbent, allegedly an ace with the paddle racket, likes to be seen doing things and doing them fast.

Mr Aznar failed to obtain the overall majority that he fully expected in general elections last March, but he skilfully negotiated the support of minority nationalist parties. Now, he exudes the confidence of a politician who has won power by a landslide.

He believes his government has done more in a matter of weeks than could normally be expected over a period of months. Initiatives have ranged from liberalising building land usage, to revising capital gains taxes and to axing planned expenditure this year totalling Pta200bn ($1.6bn).

By the end of this month, Mr Aznar expects to have agreement on a severely restrictive 1997 budget that will be presented to parliament in October. He is seeking spending cuts totalling Pta800bn and higher revenue, mostly through privatisations, of Pta400bn in order to bring the bndget deficit down from this year's projected 4.4 per cent of gross domestic product to 3 per cent.

He is adamant that the 3 per cent deficit goal will be met and that Spain will therefore be able to join the planned European single currency.

The weekly cabinet meeting that Mr Aznar holds on Fridays have a lot in common with the competitive paddle matches he plays at the weekeod, for ths prime minister likes scoring points.

He constantly quizzes his ministers about what they bave done and what they intend to do next. The answers he wants have to do with cutting costs and introdncing deregulatory measures.

The prime minister's shots usually find their target because he knows exactly where to sim. Mr Aznar receives visitors in the afternoon in his residence but he spends his mornings in the cabinet office, which is part of the Moncloa complex, by-passing his ministers with phone calls to members of their staff.

Mr Aznar makes no apology for such intrusions, saying it his job to know exactly what is going on in the differeot government departments. He dials officials directly and more than one has hung up on him, dismissing the prime minister's call as a boax.

Members of the cabinet cannot claim to be surprised by the prime minister's style; most of them have worked closely with him for years in the Popular party and are familiar with his often ruthless hands-on approach. Mr Aznar preferred chairing a round of opinions at ad boc meetings among the party's leadership to standing committees, and he was famed for cutting off speakers in mid-sentence.

The security services are also on the hop. Unlike Mr González, who rarely left the Moncloa, Mr Aznar likes to dine out in restaurants and go to the theatre. On Sundays, after his paddle match, he does a walkabout in Madrid with his family, always choosing a different church at which to attend mass.

EUROPEAN NEWS DIGEST

Bulgarian poll clash threatens

Bulgaria's governing Socialist party said yesterday its candidate for the October 27 presidential election, Mr Georgi Pirinski, the foreign minister, would stay in the contest despite being ruled ineligible by the constitutional court. Officials accused the court of political bias. Nine of the court's 12 judges are believed to be sympathetic to the opposition.

The court, against which there is no appeal, said on Tuesday that the president had to be Bulgarian by birth. Mr Pirinski was born in New York in 1948 of e Bulgarian father and an American mother.

The court cannot stop Mr Pirinski from running for president, bnt if he is elected and a formal complaint is lodged, the judges may rule his election invalid. However, Socialist officials expressed confidence that the court would not go against the will of the people. *Reuter, Sofia*

Europay in Spanish accord

Europay International, the payment card organisation which runs MasterCard in Europe, has signed an agreement with the Association of Spanish Savings Banks which breaks Visa's stranglehold on the Spanish market.

More outlets accept Europay's Maestro brand for debit cards in Spain than in any other country, but no Spanish banks currently issue any of the Europay card brands. Spanish banks have issued 17m Visa cards.

The agreement follows Visa International's decision to drop its planned ban on European member banks issuing rival cards. Mr Karel Van Misrt, EU competition commissioner, said he could "not accept" such a move.

The savings banks association has agreed to issue 6m Europay cards, including MasterCard, Maestro and Clip, Europay's electronic purse product, by the end of 1998. Europay believes that it will command a third of the market in Spain by then. *Motoko Rich, London*

Bids invited for Bank of Crete

Greece has set a timetable for privatising Bank of Crete, the loss-making bank placed under central bank administration after a $200m embezzlement scandal was revealed in 1988.

The deadline for bids will be early November and the sale is to be completed four months later, according to the economy and finance ministries. The minimum price set for selling 97 per cent of the bank's equity is Dr40bn ($170m).

Bank of Crete will be the first bank to be privatised by the Socialist government, which has been advised by the International Monetary Fund to speed up disposals of smaller state-controlled banks in order to boost competition in Greek banking. The bank was restructured earlier this year and given a Dr41bn capital injection by the state.

Plans are also under way to sell Bank of Central Greece, a subsidiary of state-owned Agricultural Bank, despite a legal dispute over its share structure.

At present, state-owned banking groups control more than 60 per cent of Greece's banking market. *Kerin Hope, Athens*

Concern over sexual harassment

Sexual harassment in the workplace is not being tackled effectively in European Union states and may require new binding rules across the EU, the Commission said yesterday.

A code of practice put forward five years ago had failed to stamp out sexual harassment. National legislation was generally inadequate, and national collective agreements had often failed to feed through to the workplace.

Mr Padraig Flynn, social affairs commissioner, will shortly open talks with employers and trade unions on future action. The Commission said it favoured a "binding instrument" setting out a common plan tailored to each country's circumstances. This cautious approach reflects national sensitivities about Brussels-led harmonisation of social policy. *Lionel Barber, Brussels*

German retail sector gloomy

The German retail sector sees "no sign that things are about to change for the better" after almost four years of sluggish growth, Mr Walter Deuss, president of the industry association, said yesterday.

"The retailing environment can only be described as unsatisfactory," he told the association's summer news conference, blaming the unexpectedly sharp rise in unemployment, low pay settlements and "the unnecessary squabbling over the government's savings package". In the first half, sales in member department stores fell a nominal 1.8 per cent from a year earlier. Textiles sales declined 3 per cent, while mail order sales were down 1 per cent.

Only 20 per cent of member companies expect sales to rise in the second half of the year; 45 per cent expect a decline. Some 50 per cent predict a fall in earnings in the second half, and only 10 per cent foresee higher earnings. Three-quarters of companies expect to cut jobs. *AFX, Frankfurt*

Klaus vote still in doubt

A confidence debate in the minority government of Mr Václav Klaus, the Czech prime minister, continued in parliament last night with uncertainty still surrounding whether the main opposition Social Democrats would support him. MPs are expected to vote on the motion today. *Vincent Boland, Prague*

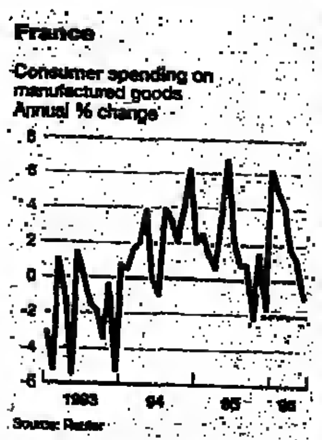
Turkish hunger striker dies

A third Turkish hunger striker died in an Istanbul prison yesterday, increasing pressure on the new Islamist-led coalition government to improve prison conditions.

About 300 prisoners belonging to proscribed extreme left groups are on bunger strike, demanding better living conditions and a halt to government attempts to regain control of the prisons, where some blocks have become no-go zones. The government has relaxed some restrictions but insists on reimposing control. *John Barham, Ankara*

ECONOMIC WATCH

French consumers buy more



After a summer of disappointing statistics notably on unemployment, the French government yesterday had some more positive economic news, with the announcement that household consumption of manufactured goods climbed a robust 1.9 per cent in June. Insee, the national statistics agency, also adjusted its figure for May to show a 0.3 per cent advance, against a 0.1 per cent decline. This still resulted in an overall decline of 1.6 per cent in consumption of these goods in the second quarter, following an increase of 4.9 per cent in the first three months. Moreover, the improvement in June was partly attributable to one-off factors. Good weather helped lift sales of clothing and shoes by a healthy 8.5 per cent and there were, unusually, five Saturdays in the month. *David Owen, Paris*

■ Spain's industrial output in May was down 3.2 per cent from May 1995, following a 1.9 per cent increase in April.

■ Swedish retail sales in May were 1.3 per cent below the level of a year earlier.

■ German import prices fell 0.7 per cent in June from May and were up 0.2 per cent year-on-year. Export prices slipped 0.2 per cent in June from May and were up 0.2 per cent from a year earlier.

Hashimoto tells banks to act over bad loans

By William Dawkins in Tokyo

Prime Minister Ryutaro Hashimoto yesterday urged Japanese bankers to restore their battered international credibility and dispose of their remaining bad loans, officially estimated at Y34,700bn ($321bn), "as early as possible".

The Japanese premier called for "an appropriate risk management system" and said that banks were urgently "required to meet the trust of the people by taking part in the globalising economy".

He chose the occasion of the 30th annual meeting of the Federation of Bankers' Associations to deliver his unusually blunt message over the collapse in property prices and the accumulation of bad debts which has caused the country's banking crisis.

Mr Yasno Matsushita, the governor of Japan's central bank, told the meeting: "It is a crucial prerequisite for you to devise drastic management improvament plans... and enhance tha scopa of disclosure".

The country's top hanker said greater credibility was needed to satisfy international investors at a time when banks needed to tap world capital markets to strengthen asset bases and bolster their capital adequacy ratios.

Hashimoto: stern warning

The theme was echoed by Mr Wataru Kubo, the financa minister, who called on banks to rethink their lending policies as well as run down their bad debts.

In contrite mood, the federation fully acknowledged the criticisms. Mr Shunsako Hashimoto, the federation's chairman, promised tha industry would make "utmost efforts to recover credibility".

Yesterday's calls come two months after the country's top 21 banks carriad ont an unprecedented house-cleaning exercise by writing off Y10,000bn of bad debts, recording a Y3,000bn pre-tax loss as a result.

These steps suggested to many that the banks had at last broken the back of the bad loan problem.

However, they financed much of those write-offs from unusually high operating profits, made on the margin between record low short-term rates and the higher rate that banks charge to long-term borrowers.

But that unusually steep yield curve is unlikely to last, and as yet, scant evidence exists of a sharp decline in new bad loans, which explains the government's wish to keep up the pressure.

One of the government's main contrihutions to resolving the problem – an organisation which will effect the disposal of collapsed *jusen* housing lenders, the weakest part of the system – is to open its doors for husiness tomorrow.

Named the Housing Loan Administration Corporation, the organisation is modelled on the Resolution Trust Corporation, the US body that disposed of the savings and loans institutions' bad debts in the early 1990s.

Industry hit by weak demand and shift of work abroad

Japan's job fears grow as vehicle output falls

By Michiyo Nakamoto in Tokyo

Japanese vehicle production fell 4.3 per cent in the first half of the year, increasing concern that the decline in vehicle manufacturing will hit jobs in the domestic market.

Total vehicle production in Japan declined to 5.1m units in the first six months, according to the Japan Automobile Manufacturers' Association. It was the first fall for the period in two years. In June alone, vehicle production slumped 6.7 per cent, reflecting the weakness of domestic demand and a sharp drop in exports.

The fall in domestic production, larger than initial industry expectations, underlines the weakness of domestic demand and the shift of production overseas as Japanese carmakers have sought to avoid the impact of a higher yen.

Vehicle production in Japan has declined since its peak of 13.5m units in 1990 and is expected to fall under 10m units, a level seen in the industry as critical to maintaining domestic jobs.

Last year, domestic production dropped 3.4 per cent to 10.2m units as exports fell 15 per cent to 3.79m units.

The poor first-half results stemmed from a weaker-than-forecast domestic market, in the middle of a replacement cycle that was expected to lift demand 2.3 per cent to 7m units this year.

Imports gain market hold after rising 64% in past five years

First half sales were less than 1 per cent higher than a year ago, at 3.6m units, prompting fears that full-year sales will not reach the industry target.

Earlier this month, Toyota, Japan's largest carmaker, announced domestic first-half production had dropped 0.6 per cent while overseas production rose by 7.7 per cent.

Nissan, the second higgest carmaker, showed a similar trend with domestic production down 7.7 per cent, though its overseas output also fell 9.6 per cent.

Domestic production in the second half could yet rise to reverse the disappointing first-half performance, as stronger overseas demand lifts exports and the continuing domestic economic recovery gathers pace, helping to stimulate consumer spending.

Further declines in domestic output are bound to come in about 1998 when the replacement cycle peaks, a significant amount of overseas capacity comes on stream, and imports take a bigger slice of the market, said Mr Takaki Nakanishi, industry analyst at Merrill Lynch in Tokyo.

Imports, which have risen 64 per cent over the past five years to 362,285 units last year, have continued their steady increase this year, while Japanese carmakers' extra overseas capacity of 500,000-600,000 units is expected by the end of the decade.

China and US set up top-level visits to revive closer links

By James Kynge in Jakarta

The US and China announced yesterday a series of high-level visits to take place this year as part of a gradual rapprochement which could result in an eventual formal summit.

A senior US official said the visits were agreed during a "productive" 75-minute meeting between Mr Warren Christopher, US secretary of state, and his Chinese counterpart, Mr Qian Qichen. If President Bill Clinton is re-elected in presidential elections in November, further discussions aimed at an exchange of state visits in 1997 or 1998 will be held, the official added.

The planned visits are a realisation of Mr Christopher's stated intention to establish a more intanse pattern of high-level exchanges to foster understanding with China. While there would still be "ups and downs" in their relationship, a broad agenda for bilateral co-operation had now emerged, the US official said.

It was agreed Mr Christopher would visit Beijing in November and Mr Chi Haotian, China's defence minister, would travel to Washington in the last few weeks of the year. Mr Christopher's trip would ba only his second to Beijing since he took office more than three years ago.

Mr Lynn Davis, US under-secretary of state, and Mr John Holum, director of the arms control and disarmament agency, are to go to China this year; Mr Lin Huaqiu, counterpart of Mr Anthony Lake, US national security adviser, will visit Washington.

US-China ties have been strained by a complex of issues since Washington allowed a private visit to the US hy Taiwan's President Lee Teng-hui in June last year. The US official denied recent progress in relations had occurred because of Washington's softening criticism of China'a human rights record.

The tactic now was to concentrate on areas of common interest. The US noted China's co-operative attitude in urging North Korea into peace talks on the Korean peninsula involving the US and its ally South Korea, along with North Korea and China.

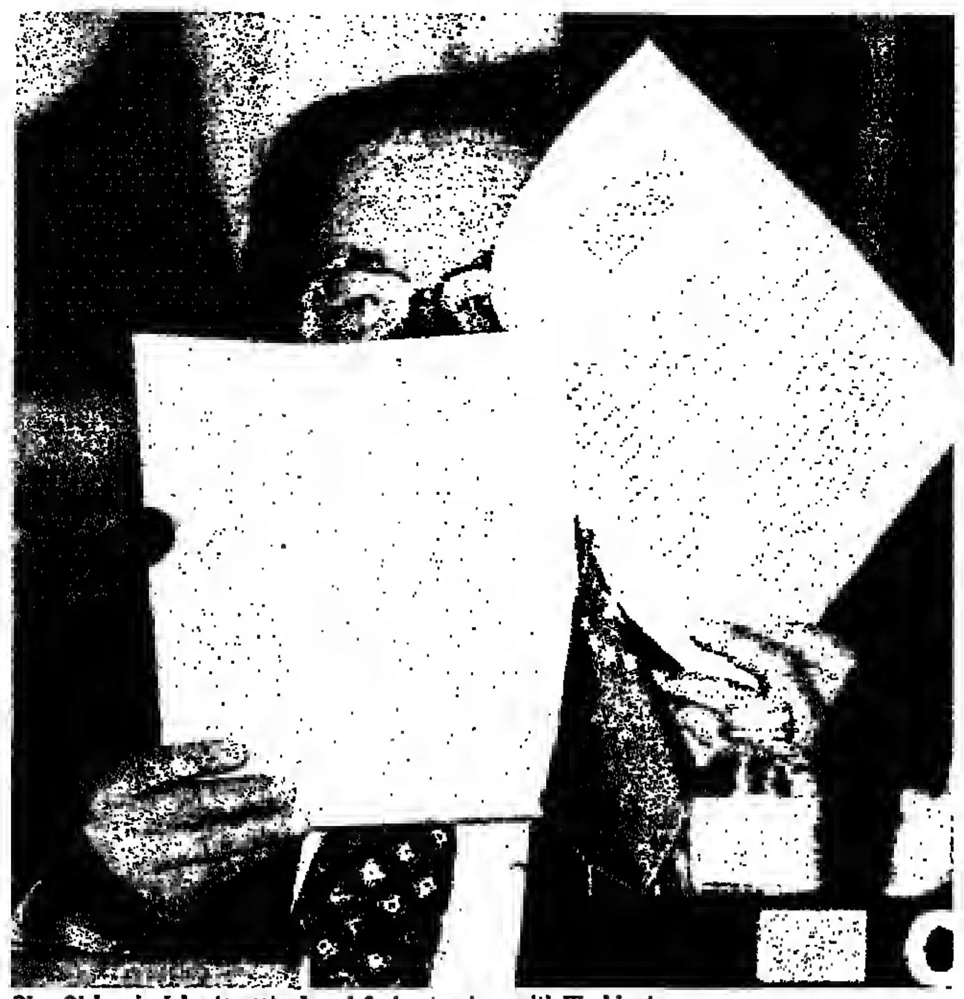
The US official was optimistic over the prospects for China's signing a treaty in New York banning the testing of noclear weapons in September. Mr Qian would only say China hoped to reach a test ban agreement before November after further work on the draft treaty.

China is under pressure to sign the treaty after Mr Yevgeny Primakov, Russia's foreign minister, agreed with Mr Christopher to oppose further haggling when negotiators from 61 countries meet in Geneva next Monday.

India resisted pressure to agree to the comprehensive test ban treaty. It says all existing nuclear weapons should be scrapped and adds that simulated testing, allowed under the present draft treaty, sbould be banned.

Separately, China was asked by the Association of South East Asian Nations (Asean) yesterday to clarify new sea boundaries it announced in May around disputed islands in the South China Sea.

The new boundaries extend China's claims in the area by some 2.5m sq km. Some Asean nations say they are invalid. Foreign ministers from 20 countries are in Jakarta for meetings surroundiog an annual Asean forum.



Qian Qichen in Jakarta yesterday: defusing tensions with Washington

HK stock exchange council member on bribe charges

By Louise Lucas in Hong Kong

A Hong Kong Stock Exchange Council member was yesterday charged by the colony's anti-corruption body with soliciting HK$1.5m ($193,860) and accepting HK$1.6m in bribes.

Ms Chen Po-sum, a former vice-chairwoman of the stock exchange and member of the council, will appear in court today to face eight bribery charges. It is alleged sbe sought the bribes in return for snpporting the transfer of seats between brokerages, the Independent Commission Against Corruption (ICAC) said.

Tbe ICAC claimed tbe alleged offences, said to involve the switch of seats from On Wah United Securities and Shing On Securities to Nomura Securities (Hong Kong) and Emperor Securities respectively, occurred between December 1993 and May 1994.

Ms Chen, 65, has been in the securities business for more than 20 years and is dealing director with Coin Fall, a local brokerage.

She holds non-executive directorships on a number of listed companies, including two of the China enterprises traded in Hong Kong, the so-called H share companies.

She ran in last year's elections, aiming for the financial services professional electoral constituency, but lost out to Mr Chim Pui-chung, who, separately, was arrested last week and charged with fraud and conspiracy to fraud.

The two cases, though unrelated, have been interpreted by market players as an attempt to clean up the market before Hong Kong reverts to Chinese sovereignty next July. But many are sceptical the government will succeed in eradicating tbese prohlems.

One veteran of the broking industry said: "I think a great deal of effort is being made to clean things up now, because there's a feeling that if they don't get cleaned np now, they won't get cleaned np in future."

● In a separate case, the High Court yesterday appointed provisional liquidators to Mandarin Resources, a manufacturing and investment company 73 per cent owned by Mr Chim.

Trading in the company's stock has been suspended for more than a decade, and the Securities and Futures Commission, the securities watchdog, last week reqnested it be wound up.

Beijing hits at nations backing Taiwan's effort to join UN

By Tony Walker in Beijing

China yesterday condemned Taiwan's effort to secure United Nations membership, accusing countries which had proposed such a step of "wantonly trampling" on the UN Charter and interfering in China's internal affairs.

"The Taiwan issue is China's internal affair. We firmly oppose the interference in China's internal affairs by any country in violation of the guidelines of the UN Charter," a Chinese foreign ministry spokesman said.

Nicaragua, at the head of a group of countries from Central America, the Caribbean and Africa, has proposed Taiwan's membership for the fourth year in a row, risking Beijing's anger.

China, in its sternest criticism of Taiwan for some months, accused tha authorities in Taipei of "splittist" activities and of seeking to create "two Chinas" or "one China, one Taiwan". Beijing regards Taiwan as a renegade province and has not ruled out the use of force to achieve reunification.

China assumed its place in the UN in 1971 on the expulsion of Taiwan. The Nationalist government in Taipei had held the seat since its retreat to Taiwan after its defeat hy the Communists in 1949.

Apart from Nicaragua, other sponsors of Taiwan's return to the UN inclnde Burkina Faso, the Central African Repnblic, Dominica, Dominican Repnblic, El Salvador, Gambia, Granada, Guatemala, Guinea-Bissau, Honduras, St Lncia, St Vincent, Senegal, the Solomon Islands and Swaziland.

The Chinese foreign ministry said China stood for peaceful reunification, but Taiwan had "acted wilfully" in its attempts to "split the motherland in collusion with international anti-China forces".

Beijing's strong criticism of Taiwan's UN move comes a day after a similar stern rebuke over a resolution of the European parliament whicb had called for Taiwan's participation in international organisations.

The official Xinhua newsagency quoted a foreign ministry spokesman as saying the resolution was "gross interference" in China's internal affairs and represented open support for Taiwan's attempts to create "two Chinas" or "one China, one Taiwan". He accused the European parliament of "putting on an anti-China farce."

Separatist Tamil guerrillas are believed to have wiped out a military garrison of more than 1,000 at Mullaitivu in the north-east

Tamil Tiger bombs kill 70 in Colombo commuter train

By Amal Jayasinghe in Colombo

At least 70 people were killed when two bombs ripped through a crowded train in Colombo yesterday, amid reports that Tamil Tiger separatist rebels had also wiped out a military garrison of over 1,000 in the east of the country.

The attack, which also wounded upwards of 500 commuters, was attributed to the separatist Liberation Tigers of Tamil Eelam (LTTE). Security had been tightened in the capital, fearing just such a bombing to mark the 13th anniversary this week of riots that killed an estimated 600 Tamils after the Tigers ambushed and killed 13 soldiers of the majority Sinhalese community.

The train bombing came as elite commandos fought to lift a week-long Tiger siege on the government military garrison in the north-eastern town of Mullaitivu. What the reinforcement column found has now confirmed the worst fears of the military authorities. "There was no sign of life in the camp when the reinforcements stormed in," a military official said.

Tiger guerrillas claim they killed 1,208 government soldiers for the loss of 241 of their own men at Mullaitivu in their biggest single success against security forces in their decades-old separatist war.

Sri Lanka's defence ministry said earlier that more than 60 rebels were killed when government troops and warplanes retook the camp, 175 miles north-east of Colombo.

The assault was seen as a sign that the rebels' fighting capability was largely intact even though government forces drove them out of their citadel of Jaffna in several operations just two months ago.

In one of its largest ever military campaigns Colombo despatched tens of thousands of troops, to end what had been a virtually autonomous Tamil state. The government hoped then that the war, which costs around $1bn a year and has killed 42,000 people, would soon be over.

"The government is clearly unable to handle the situation," opposition leader Ranil Wickremesinghe said. "They can't fight the war nor can they take care of the economy."

Justice Minister G.L. Peiris has already warned that defence expenditure this year will be much higher than the estimated Rs68bn ($687m), up from Rs52bn in 1995, and there were no signs of an early economic recovery.

Tourist hotels have been the worst affected by the violence. Since the Tamil Tigers blew up Colombo's two main oil storage depots in October last year, foreign holidaymakers have given island a wide berth.

The number of foreigners visiting Sri Lanka dropped by 40 per cent in the first five months of 1996 and this downturn was compounded by the LTTE's January 31 suicide bombing of the Central Bank in Colombo, killing 91 people.

Already hotels have laid off hundreds of workers and sharpiy reduced rates in a desperate effort to attract local holidaymakers, while the tiny Colombo stock exchange reflects the gloom in the economy with a steady bear run.

Yesterday's simultaneons explosions devastated two carriages of the south-bound commuter train just as it was leaving the suburban station of Dehiwala after stopping there for 15 minutes following a bomb scare, officials said.

Dehiwala Station Master K.P. Jayasekara said he had telephoned the police after some passengers informed him that two men had left behind briefcases and got off the train at a previous station.

"We wanted everyone to get off the train and to do a thorough check," Mr Jayasekara said.

"But some otber passengers thought it was a hoax and started boarding the train when the blasts went off."

Inflation dips in Australia but pressure stays on interest rates

By Nikki Tait in Sydney

Australia'e annual inflation rate dipped to 3.1 per cent in the June quarter, still slightly abova the Reserve Bank of Australia's desired 2-3 per cent range, but the lowest figure recorded since the December quarter in 1994.

The "underlying" inflation rate, which attempts to strip out one-off, distorting factors, also stood at 3.1 per cent.

Prices rose 0.7 per cent in the June quarter alone. This was slightly more than most economists were predicting, and immediately quashed hopes of an early easing in official interest rates.

Tbese have remained unchanged since the three rate increases in late 1994.

"The Reserve Bank now has to wait a little longer before it can be absolutely confident inflation is heading significantly downward," analysts at Bankers Trust said.

Commenting on the figures, Mr Peter Costello, federal treasurer, noted that inflation was only "fractionally" above the RBA's target range and should result in reduced pressure on interest rates.

But he stressed the need for both employees and employers to negotiate responsible wage increases.

"We want to get [the growth in] wages back in the band of 4 to 5 per cent," he said. Allowing for productivity improvements, this is the average level thought sustainable by the Reserve Bank.

Meanwhile, Moody's, the US rating agency, has highlighted the need for Australia to boost its lowly domestic saving ratio, in its latest country ratings review.

Unless this happens, it says, "[Australia's] need for foreign saving will remain high, and this will be a major constraint on medium-term growth.

"The newly elected government clearly understands this difficulty and its proposals for dealing with the savings/investment gap in the short-term are far bolder than plans outlined by the previous government," the rating agency comments.

It points to the efforts at present under way to reduce the federal budget deficit.

Bot Moody's adds: "Solving the medium-term savings problem will require innovative approaches.

"If the government has a prohlem implementing major structural reforms that will affect the madium-term savings rate, and if it wants to improve the savings balance in the future, it will have increasingly to rely on fiscal policy."

● A legal challenge to the Northern Territory's controversial voluntary euthanasia law has been dismissed by the NT Supreme Court.

The new law came into force this month, and makes the Northern Territory one of the very few jurisdictions worldwide where voluntary euthanasia is officially permitted.

Any usage of the "Rights of the Terminally Ill" act has been hindered by the legal challenge. Yesterday's ruling may not end the uncertainty.

An appeal to the High Court is thought likely, and the federal government has indicated it may seek to intervene.

Separately, a private member's bill, seeking to override the NT legislation, is set to be introduced into the next session of federal parliament.

OBITUARY

It is with deep regret that we announce the death of Didier Foulon, who was amongst the victims of the TWA explosion on July 17th 1996.

Mr. Didier Henri Foulon

Mr. Foulon, who was 40, joined Benckiser in 1987. He provided leadership in a number of key positions in both the cosmetics and fragrances and household products division of the company. He was appointed President of the Lancaster Group division and Executive Vice President of Coty Inc. in early 1996.

Mr. Foulon was a respected leader and a trusted friend to his colleagues.

We shall honour his memory.

The management board and employees of Coty Inc. and its parent company Joh A. Benckiser GmbH.

Politics sets tone for US sanctions law

Nancy Dunne and Robert Corzine on legislation aimed at punishing Iran and Libya

Mr Bill Clinton, the US President, would have wide discretion in deciding what sanctions he imposes on companies investing in Libya and Iran if, as expected, he signs legislation approved on Tuesday by Congress. Much will depend on the political climate in which he has to act.

At present, the widespread suspicion in the US that a terrorist bomb, possibly of Iranian or Middle Eastern origin, brought down the TWA Boeing 747 jetliner killing all 230 passengers and crew last week, leaves Mr Clinton with little choice but to sign the measure, even if he were inclined to veto it.

Under the Iran and Libya Sanctions Act of 1996, investments already in place would not be liable to sanctions. But the threat of action against further investment could discourage the activities of foreign companies.

The following events would trigger sanctions:

● For Iran, new investments in any 12-month period totalling more than $40m which contribute to the enhancement of the country's ability to develop its oil and gas resources. After a year, the trigger drops to $20m for those companies whose governments have not co-operated with the US on sanctions.

● For Libya, new investments in gas and oil development totalling more than $40m in a year. Exports to Libya of goods or technology prohibited by US resolutions which would help Libya acquire weapons, contribute to the developments of oil and gas or boost Libya's aviation capabilities.

The president must consult with other governments before imposing sanctions on its companies or nationals.

This leaves room for compromise. The president can terminate the sanctions before the two-year sanction period if it determined that the sanctioned party is no longer engaging in the objectionable activity.

Cole Corette & Abrutyn, an international business law firm which has carefully studied the legislation, says the impact would be greatest on countries which export heavily in the US market or need to obtain US technology.

"The exposure of corporate affiliates to sanctions under the Act is somewhat limited as a technical legal matter," the firm concluded in written summary. "Parents and subsidiaries of a sanctioned person would themselves be subject to sanctions only if they engaged, with actual knowledge, in the activities giving rise to the sanctions."

International oil companies are expected to look for loopholes that might allow them to maintain investment in the Libyan and Iranian industries at a level higher than that set by the US legislation, according to executives.

One way would be to funnel investment through subsidiaries which are far removed from the parent group. For this to work, however, deals would have to be carefully structured so that the parent company could not be shown to have been the source of the investment funds, says one oil company executive.

Some companies may also look at legal structures in which international oil companies act more as a contractor than a direct investor.

The success of such subterfuges may not be assured, however. One London-based oil explorer which has held recent talks with Iran said yesterday: "Those companies which think they can play games with corporate structures should think again. The US will see straight through them."

He suggested that European oil companies with interests in the two countries should unite under a European Union banner and set out rules for their corporate involvement with the two countries. "Otherwise we should not do it at all."

The irony of the latest legislation is that the inclusion of Libya, which was not a Clinton administration priority, has actually prompted a common response among European oil companies.

"If it had been Iran alone then many companies would have said 'let the French go their own way'," said another London-based executive who oversees oil projects in Libya.

Only Total, the French oil company, has signed a deal with Iran. But the extensive and well-established European presence in Libya created common ground for companies from many countries.

Oil groups with big interests in Libya include Agip of Italy, Repsol of Spain, Austria's OMV, Belgium's Petrofina and Total of France.

Other companies, such as Lasmo of the UK, are currently exploring for reserves.

The exemption in the sanctions bill for existing projects means the legislation is unlikely to have any early impact on oil production. In addition continental European banks will probably continue to lend funds for existing Libyan developments, although Total has had to rely on its own funds to finance its offshore Sirri development in Iran.

Nor is the legislation likely to stop companies from talking to the Iranian and Libyan governments about new investments. But new contracts and the large sums of money to underwrite them may have to await the outcome of high level talks between the US and the EU.

"We'll continue to talk," said one executive yesterday, "but we'll be very wary of signing a deal until the dust is settled."

Meanwhile, the European-American Chamber of Commerce yesterday said there could be "disastrous consequences" as a result of the legislation and warned of a backlash of retaliatory measures which would hurt US companies.

SANCTIONS AGAINST IRAN AND LIBYA

The president must impose two or more of any of the following six options:

● Denial of credits from the US Export-Import Bank.
● Denial of export licences for controlled goods or technology.
● Prohibition on loans of more than $10m from US financial institutions to any sanctioned person over any 12-month period.
● Financial institutions which are sanctioned cannot be designated as primary dealers in US government debt instruments or serve as a repository for US government funds.
● Prohibition against participation in any US government procurement project.
● Import restrictions.

Divers step up search of TWA jet wreckage

National Transportation Safety Board and FBI executives discuss charts of the TWA crash site AP

Investigators prepared for a huge diving operation yesterday to raise large amounts of wreckage and bodies from the ocean floor to help determine whether sabotage caused the crash of TWA Flight 800, Reuter reports from New York.

A week after the disaster, in which 230 people died, up to 120 divers prepared to explore parts of the fuselage, 18 miles offshore of New York. Officials said sonar had located a field of submerged debris, about half the size of Manhattan Island.

Divers were using powerful sonar to search the debris field. The voice and data recorders may be in the area, investigators said. The aircraft exploded last Wednesday night shortly after takeoff from New York bound for Paris. By early yesterday, only 1 or 2 per cent of the aircraft and fewer than half the victims had been recovered.

Mr James Kallstrom, FBI assistant director and the chief investigator of the crash, said his department had evidence pointing to sabotage. But "it is not conclusive".

President Bill Clinton said it was too early to be conclusive. "There [are] some traces of chemicals that have been identified. But based on the reports I have read, I cannot tell you the evidence establishes the cause of the accident."

Jurors who will decide whether three radical Moslems plotted to bomb US passenger jets, were being interviewed yesterday about whether the TWA explosion had influenced their judgment. US District Judge Kevin Duffy was questioning each panellist. Defence lawyers said they would wait to hear the jurors' responses before deciding whether to ask for a mistrial.

Three defendants are on trial in Manhattan federal court for their alleged scheme to destroy 12 US aircraft and kill 4,000 passengers over 48 hours last year. The trial moved into a crucial stage of testimony this week as speculation rose that sabotage caused the TWA disaster.

AMERICAN NEWS DIGEST

Microsoft faces software suit

US software developer Caldera said yesterday it had filed an antitrust suit against Microsoft alleging "illegal conduct... calculated and intended to prevent and destroy competition in the computer software industry".

The suit, filed in in courts in Salt Lake City, concerns the DR DOS operating system, developed in the late 1980s by Digital Research to rival Microsoft's MS-DOS system.

Digital Research was later acquired by Novell, while the DR DOS system was acquired by Caldera.

Mr Steve Susman of Susman Godfrey, a lawyer representing Caldera, alleged that Microsoft's "predatory practices" had prevented DR DOS from gaining market share during the last five years. He estimated the DOS market between 1991 and 1995 at $20bn. *Reuter, Provo, Utah*

Colombian ex-senator jailed

An important figure in Colombia's worst drug corruption scandal inside Congress has been sentenced to more than four years in jail for receiving money from drug traffickers.

Former Senator Maria Izquierdo was sentenced late on Tuesday to four and a half years in prison and fined $56,000 for illegal enrichment, an official of the National Tribunal in Bogotá said.

She is the second suspect to be sentenced in an unprecedented investigation into drug corruption in Congress and the presidency. Mr Santiago Medina, the former treasurer of President Ernesto Samper's election campaign, was jailed earlier this month.

Mr Samper was charged with having solicited millions of dollars from the Cali drug cartel for his 1994 election campaign, although Congress later absolved him.

Ms Izquierdo's sentence was reduced by 28 months because she accepted the charges against her including the receipt of $83,000 from the cartel, some of it for her own election campaign, the official said. *Reuter, Bogotá*

Minister proposes Brazil sell-off

A senior Brazilian official yesterday proposed the "total privatisation" of state-run businesses as a way to reduce the country's production costs.

Mr Francisco Dornelles, industry, commerce and tourism minister, said privatising airports, sea ports, highways and railways would cut sky-high transportation costs that handicap Brazil's business sector.

He said the liberalisation of the Brazilian economy was "irreversible", adding: "No area should be off limits to private investment, either national or international." *AFP, Brasília*

US, Peru renew drugs pact

Peru and the US have signed a treaty pledging to renew their joint commitment to fight drug trafficking in the region.

The agreement, signed on Tuesday night, seeks "to co-ordinate policies and carry out specific programmes," said a ministry statement. The treaty replaces an earlier one signed in May 1991.

US ambassador Alvin Adams assured Peru that Washington would not reduce its anti-drug aid because of the recent seizures of about 220lbs of cocaine in Peruvian navy ships and more than 380lbs in an air force plane, state news agency Andina reported.

The US is currently providing logistic support in the anti-drug efforts in the Peruvian jungle through its Operation Laser Strike and also finances programmes to replace coca crops. *Reuter, Lima*

Burundi coalition on brink of collapse

By Michela Wrong

Civilian government in Burundi appeared on the verge of collapse yesterday as the beleaguered Hutu president took refuge in the US embassy in Bujumbura and other Hutu politicians went into hiding.

The news that President Sylvestre Ntibantunganya and his wife had fled to the embassy "for security reasons", coupled with reports that the army had replaced the usual guards at the national television station, prompted fears that the Tutsi-dominated military was staging a long-anticipated coup.

In New York, the UN Security Council said it was "gravely concerned" at developments and warned against any attempt to overthrow the legitimate government.

An army spokesman denied a coup was planned and insisted that Burundi's security forces remained loyal to Mr Ntibantunganya, who since 1994 has headed a fragile coalition guaranteeing power-sharing between the minority Tutsis and majority Hutus.

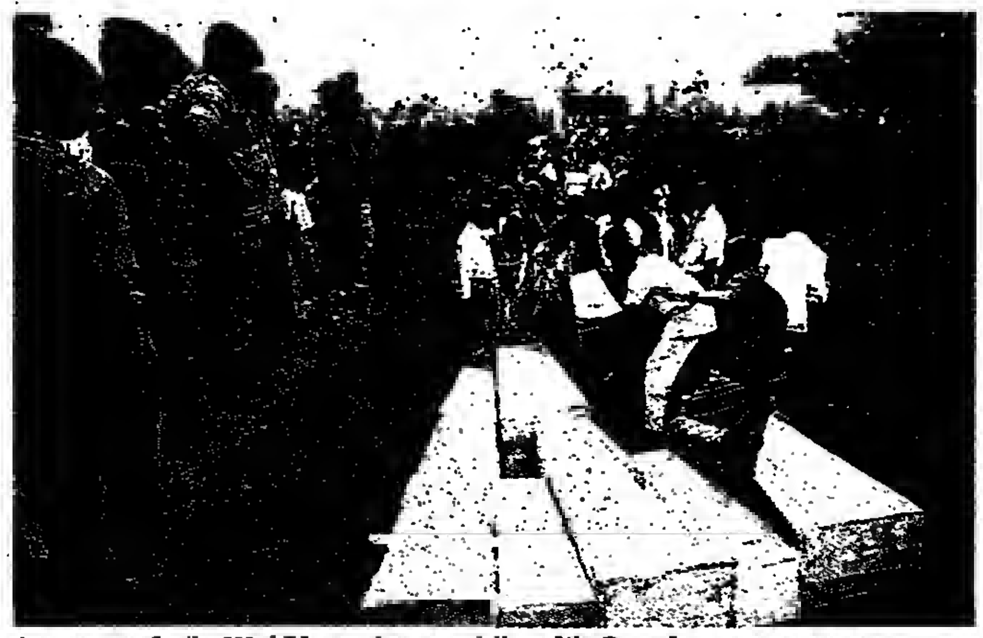
But the mainly Tutsi opposition party UPRONA, an uneasy partner in government with the Hutu-dominated FRODEBU group, threw down the gauntlet by announcing it was withdrawing support from Mr Ntibantunganya and seeking "other partners" to endow the country with new institutions.

The immediate motive for Mr Ntibantunganya's flight appears to have been the hostile reception he received in central Burundi yesterday at the funeral of more than 300 Tutsis, victims of what the army said was a massacre by Hutu rebels.

While his Tutsi prime minister and army soldiers looked on impassively, a crowd of mourners threw stones and cow dung at the president. Local journalists said he retreated into his helicopter and flew to Bujumbura and the US embassy.

But observers say a showdown has been on the cards since the Organisation of African Unity this month endorsed a plan to send in East African peacekeeping troops.

Both the president and Prime Minister Antoine Nduwayo originally requested "security assistance" from neighbouring countries to allow a political settlement to be reached. The premier later backtracked, claiming a "betrayal" by Mr Ntibantunganya.



A mass grave for the 300 children and women victims of the Bugendana camp massacre AP

Anticipation of an imminent invasion by the Tanzanian, Ugandan and Ethiopian troops has fuelled hardline sentiments among an already paranoid Tutsi community. Tutsi defence units train daily in central Bujumbura and there is a strong sense of a community preparing for all-out war.

The army, working hand-in-hand with Rwandan forces, last week started forcing Rwandan Hutu refugees camped in the north to return home. Some 15,000 of these refugees, viewed by the military as natural allies of the rebels, were pushed into Rwanda, before the UNHCR prevailed on the army to halt operations.

Israel calls on Syria to hold peace meeting

By Sean Evers in Cairo and agencies

Israel's new government yesterday called on Syria to hold a meeting of foreign ministers to revive talks deadlocked over the fate of the Golan Heights.

"If the Syrian foreign minister is interested and peace is important to his country... I am ready to meet him in any place and at any time," Mr David Levy, the Israeli foreign minister said.

Mr Levy's appeal to Syria followed a series of high-level meetings between Israel and Arab peace partners – Egypt, Jordan and the Palestinians – which have taken place in the five weeks since Mr Benjamin Netanyahu formed the new government.

In addition, envoys from France and the US have this week visited the region to breathe life into peace moves thrown into doubt since Mr Netanyahu became prime minister.

US Middle East envoy Mr Dennis Ross met Syrian Foreign Minister Farouq al-Shara and Syrian President Hafez al-Assad yesterday and was scheduled to go on to Israel later in the day.

Syria is urging Washington to pressure Israel to agree a withdrawal from occupied lands. Just before Mr Ross arrived in Syria on Tuesday, state-run radio said talks would resume only if Mr Netanyahu dropped his opposition to the land-for-peace formula.

Mr Hervé de Charette, the French foreign minister, yesterday wound up a Middle East diplomatic tour in an effort to revive the stalled peace talks and prepare for a regional tour by President Jacques Chirac.

Mr de Charette met leaders in Syria, Lebanon, and Jordan, and held further talks in Israel and Egypt.

France has sought a wider role in Middle East peacemaking since President Chirac took office last year. Mr Chirac has expressed his fears of a resurgence of violence unless Israel resumes peace talks based on the principle of trading captured Arab land for peace.

Mr Osama Al Baz, the Egyptian president's political adviser and a key intermediary in regional peace negotiations, stressed that "France and the European Union are the most qualified in play an active role in the peace process".

He said an enhanced EU role in the Middle East was especially important as the US "is too busy with elections", although he noted this involvement would complement rather than replace the US role.

Washington has resisted greater participation by the French in the region. The two countries agreed last week on the five-member committee to monitor the April ceasefire in South Lebanon, with the US consenting to rotate the chair with France every six months. This was a significant development for France giving it an official foot in the door.

France is supporting the re-election of Mr Boutros Boutros Ghali as secretary general of the UN in the face of US opposition to his standing. Paris has also warned the new Israeli government that if it abandons the agreed "land for peace" cornerstone of the Middle East peace process, France would reconsider its trade and security relations with Israel.

● Israeli forces deliberately attacked a United Nations compound in southern Lebanon and killed civilians in violation of the rules of war during its offensive in April, Amnesty International said in a report released yesterday.

A report by the United Nations in May said the shelling of the compound at Qana, which killed 91 refugees, was "unlikely" to have been an accident.

Israel says the shelling on April 18 was provoked by fire from nearby Hizbollah positions. Israeli officials said troops inaccurately measured the distance between the base and the Hizbollah position, and that only a few shells landed on the base.

Rains fail to ease Zimbabwe budget drought

With Zimbabwe's economy growing at 7 per cent this year after the best rains for a decade, the markets could be forgiven for expecting a give-away budget from Mr Herbert Murerwa, the finance minister, today.

In the event, Mr Murerwa, has his back to the wall. Not only has the International Monetary Fund walked away from Zimbabwe pending measures to curb the budget deficit of almost 15 per cent of GDP in 1994/95, but World Bank lending and other donor assistance is in also in the balance.

To make matters worse, there is sense of siege in the private sector, where foreign investment, in particular, is at risk in the wake of outspoken, bitter criticism of foreign and white-owned businesses. Business hopes the finance minister will use his budget speech to take a strong public stand against some of these attacks which reached a new low last week when the Affirmative Action Group – a black "empowerment" lobby – threatened Mr Barry Hamilton, the incoming chief executive of Standard Chartered Bank, Zimbabwe. AAG spokesman, Mr Philip Chiyangwa, said his organisation would make Mr Hamilton's stay in Zimbabwe "a nightmare". Mr Hamilton is British. "Let him land here and we will give him the shock of his life," he added.

However, Mr Murerwa would appear to have little encouragement to reassure an increasingly demoralised business community, since President Robert Mugabe himself cast the first stone at the private sector when he criticised Lonrho and Anglo American for their failure to appoint black chief executives. Mr Mugabe also described industrialists as "crooks".

Mr Murerwa is also being confronted by criticism of his own track record. As minister of industry and commerce until May, he shares the blame for the tariff restructuring debacle under which a new import tariff system was introduced at the beginning of July and suspended three days later after criticism from business. Industrialists say the new tariff, designed to eliminate anomalies, creates almost as many new problems as it was supposed to solve.

Industry is also hoping for details of progress in the long-running negotiations with Pretoria for preferential entry to the South African market, especially for clothing and textiles.

Despite the strong recovery fuelled by the excellent rains last season, buoyant tobacco prices and a strong performance in both the mining and tourist sectors, Mr Murerwa will be hard pushed to offer much in the way of concrete measures to tackle the budget deficit that bedevilled and eventually torpedoed the country's Enhanced Structural Adjustment Facility (Esaf) with the IMF a year ago.

His predecessor Mr Ariston Chambati, who died last October, budgeted a year ago for a deficit of Z$4.3bn (US$400m), or 6.5 per cent of GDP. By January, however, the IMF estimated a budget deficit for the year to June 1996 of Z$6.6bn or 10 per cent of GDP.

Recent discussions with the IMF have focused on the fiscal measures necessary before Zimbabwe can resume borrowing from the Fund. The key problem remains public spending, running at 40 per cent of GDP. Interest charges and wages take up a third of the budget each.

Having raised sales tax and income taxes substantially since the last budget a year ago and extended the drought levy and tobacco tax, the minister has little room for manoeuvre on the revenue side.

One possibility is an export levy or royalty on mineral exports, while a further small increase in consumption taxes on fuel, drink and tobacco is on the cards.

While Mr Murerwa is likely to announce plans to privatise some parastatals and to promise new public spending cuts, he has not started well: at the weekend, a 27 per cent increase in the public service wage bill was announced.

The ministeris also expected to announce details of a policy review. With the first phase of structural adjustment (1991-1995) ending in some disarray, business is awaiting a clear lead from government in respect of the second stage. The key areas where policy pronouncements are awaited are public sector reform, privatisation, industrial policy and regional strategy.

Tony Hawkins

Zimbabwe: deeper in debt

NEWS: WORLD TRADE

British company sells low-pollution air-conditioning to German railways

Big hopes for novel train ventilation

By Peter Marsh

A British company has announced a breakthrough in air-conditioning systems for trains which could lead to annual sales of "tens of millions of dollars" over the next few years.

Normalair-Garrett, owned 52 per cent by Britain's GKN and 48 per cent by Allied Signal of the US, has devised the systems, which it claims are the first in the world to use "air-cycle" technology for passenger trains.

The first production units of the novel "air-cycle" systems have been ordered by Deutsche Bahn, the German rail operator, in a contract worth £10m ($15.5m).

They are claimed to cause less pollution than conventional air-conditioning systems, and also to cut operating costs by being easier to maintain.

The first versions of the systems, based on technology originally devised for air-conditioning equipment in aircraft, will be fitted to Germany's new generation of ICE 2.2 high-speed trains to enter service in 1998.

According to the Yeovil-based company, several other rail operators and equipment makers, from France, the US, and Britain, have expressed interest in fitting the equipment to existing rolling stock. "We see a tremendous market opportunity," the company said.

The systems are designed for electric trains though could also be applied to diesel locomotives fitted with special generators.

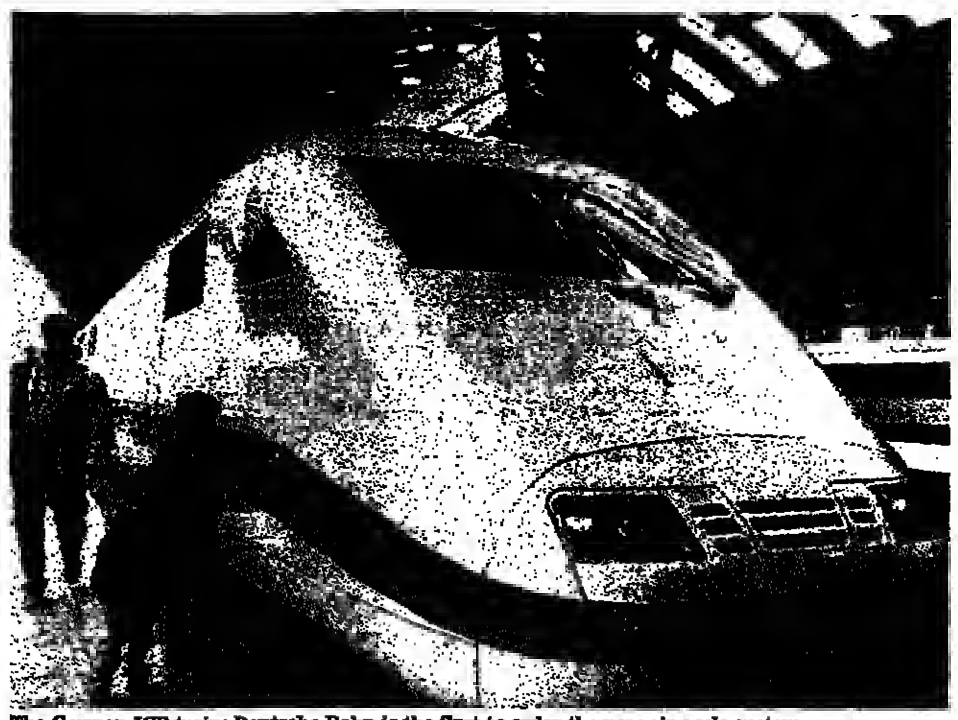
The equipment uses air as a refrigerant, rather than the chemical refrigerants in conventional air-conditioning systems, used for instance in cars and buildings. These refrigerants are based on chlorofluorocarbon gases and their derivatives, which are widely thought to contribute to ozone depletion and global warming.

The price of the new systems is likely to be about £25,000 per unit, comparable to conventional equipment. They require a special high-power compressor, developed by Normalair-Garrett, which is used to provide a source of compressed air needed for the cooling cycle.

Although the systems require more electricity than conventional chemical-based equipment, Normalair-Garrett says that lower maintenance costs mean overall running expenses of the new hardware are 15 per cent lower than for older types of air-conditioning.

Air-cycle systems are the standard devices used in aircraft air-conditioning, where the compressed air comes "free" as a byproduct of the compression taking place in jet engines. In a train, there is no such source of air, which is why Normalair-Garrett had to provide one through the high-power compressor based on a novel, high-speed switched-reluctance drive motor.

In its efforts in Germany to market the systems, Normalair-Garrett has teamed up with Hagenuk Faiveley, a French-owned, German-based rail equipment producer.



The German ICE train: Deutsche Bahn is the first to order the new air cycle systems

Commission urges trade areas review

By Guy de Jonquières in Brussels

The European Commission plans to call on the World Trade Organisation to tighten its rules on regional trade agreements, to ensure that they comply fully with multilateral principles and do not discriminate against non-members.

The initiative, sponsored by Sir Leon Brittan, the trade commissioner, is inspired by increasing concern in Brussels that the spread of free trade agreements, notably in Asia, threatens to reduce EU access to some of the world's fastest growing markets.

The Commission is particularly worried that the free trade area planned by the Association of South East Asian Nations, which aims to remove tariffs on trade between Asean's members by early next century, will leave intact barriers to exports from third countries.

Officials in Brussels say their plans have been influenced by falling EU exports to Mexico since its financial crisis two years ago, while US exports have stagnated.

They say this reflects the North American Free Trade Agreement, which prevented Mexico from raising tariffs on exports from the US and Canada but allowed it to increase duty levels sharply on exports from other countries.

Sir Leon's plan, which still faces resistance from some fellow commissioners, has two prongs. The first would require the WTO to vet a backlog of about 90 outstanding regional free trade agreements, some notified many years ago.

Many of the agreements involve only small volumes of trade and are relatively uncontroversial. Brussels wants the WTO secretariat to examine these arrangements under a special accelerated procedure.

The second prong would involve clarifying and tightening the WTO's criteria for judging whather future regional trade agreements meet world trade rules. The provisions are notoriously vague and have been widely criticised as impossible to enforce effectively.

The plan must still overcome opposition from Mr Manuel Marin, the Spanish commissioner responsible for EU relations with the Mediterranean, Middle East, Latin America and parts of Asia.

Mr Marin has been an enthusiastic promoter of free trade agreements between the EU and partners such as Mexico and Mercosur, the five-member South American customs union.

Commission officials accept that the plan, which they hope to submit before the WTO's ministerial conference in December, would expose many of the EU's free trade agreements to closer international scrutiny.

Officials say they are already re-examining these deals to ensure that the provisions comply with world trade rules.

The EU is already applying tougher criteria to ensure that planned free trade agreements, with countries such as Mexico and South Africa, are compatible with WTO rules, and is subjecting existing accords to similar tests as they come up for re-negotiation.

Poorer nations plan attack on textile barriers

By Frances Williams in Geneva

Third World exporters of textiles and clothing plan a wholesale attack on the tardy progress of trade liberalisation in the sector when their grievances are discussed today in the World Trade Organisation.

Recent controversial changes in US rules of origin also come in for criticism in a paper prepared by Pakistan on behalf of 10 Asian textiles exporters submitted to the WTO's council for trade in goods.

The paper calls for a full review of the operation of the WTO's textiles and clothing agreement before December's WTO ministerial meeting in Singapore, which the exporters hope will chivvy importing countries into speeding up the dismantling of trade barriers.

Under the agreement, the restrictive Multi-Fibre Arrangement, which for decades imposed quotas on trade in textiles and clothing between rich and poor countries, is due to be phased out by 2005. But developing countries complain that importers are pushing liberalisation as far down the road as the rules allow. The US, the only country to have announced its plans for the full 10-year transition, intends to leave the bulk of its existing quotas in place to the very end.

The Pakistani paper, backed by the Association of South East Asian Nations, Hong Kong, India and South Korea, argues that procrastination runs counter to the accord, which urges a continuous process of adjustment allowing domestic industry to adjust to increased competition.

The paper also lambasts Washington for its recent changes to origin rules which "have introduced great uncertainty and unpredictability" for exporters. Pakistan says the move breaches stipulations in the WTO accord that such changes should not disrupt trade or restrict market access.

Hong Kong and China – which is not a WTO member – are the main victims of the changes, which for clothing attribute origin to the country where the clothes are assembled. Hong Kong can no longer send cut fabric over the border to be made up in China and then exported as "made in Hong Kong". Instead, the goods will have to be covered by China's quota for imports into the US.

Philippine exports of tablecloths and other household linen have also been hit. The changes have even affected some European companies, such as makers of luxury silk scarves, whose origin is now being attributed to the country producing the fabric, such as China or Thailand. Brussels has asked for consultations with Washington on this.

Other criticisms in Pakistan's paper include:

● US attempts (mostly unsuccessful) to use exceptional "safeguard" measures to try to tighten quota restrictions.

● Lack of transparency and impartiality in the WTO's textiles monitoring body, which comprises five exporting and five importing country members acting individually.

● The growth of discriminatory regional trading arrangements.

Trade officials said yesterday that the US planned to counter at today's meeting with concerns of its own, including complaints that exporting countries are not doing enough to lower their trade barriers to textile and clothing imports or to prevent circumvention of quota arrangements.

The European Union has signed a long-delayed textile and garment quota agreement with Vietnam, paving the way for significantly increased exports by Vietnam to the EU, writes Jeremy Grant in Hanoi.

Vietnamese textile and garment exports account for about 70 per cent of the country's exports to the EU. The trade was worth $350m last year, and is estimated to reach $400m this year.

Hanoi hopes to sell $1bn a year of textiles to the EU by 2000.

South America car hopes 'too high'

By John Griffiths

Carmakers rushing to install manufacturing capacity in South America are being over-optimistic about the region's growth prospects, with annual sales likely to fall well below the 3m-4m predicted for the end of the decade, the respected JD Power industry monitoring group warned yesterday.

Last year's recession in Argentina has already slowed car sales growth prospects for the region and a variety of economic uncertainties facing Brazil mean that total sales in the South American region will rise by only around 300,000 units to reach 2.6m by the end of the decade, compared with just over 2.3m this year, said Mr Michael Schmall, the group's director of forecasting. Brazil's problems included concerns about its budget deficit and its effects on GDP growth and interest rates.

Speaking at a UK motor industry conference organised by the trade publication Automotive International, he warned components manufacturers tempted to set up in the region that the resulting overcapacity could damage both carmakers and their suppliers.

European carmakers currently investing heavily in the region could be particularly vulnerable in the price wars that would inevitably follow, said Mr Schmall. They would be hard pressed to compete against the major US players investing in the region, particularly Ford, which would be determined to make maximum use of their capacity.

● China's car industry experienced a dramatic increase in the stock of unsold saloons in the first half of this year, more than doubling to 19,600 units compared with the same period last year.

The vehicle sector blames a lingering credit squeeze for the slowdown in activity. China's inadequate road system and lack of parking facilities for cars in cities are also proving a drag on the industry.

ATLANTA OLYMPICS

Olympics introduce the new Russia

Despite the performance of the Russian team, which was last night tied in first place with nine gold medals, back in the homeland many aports fans are watching the games with a gloomy air and a nostalgia for the otherwise unlamented USSR.

With its armies of privileged athletes, the Soviet Union used to approach the Olympic Games as an arena in which it could be certain of proving tha superiority of central planning over the capitalism of the decadent west. But as Russia competes in the games as a separate state for the first time in 84 years, the main event is the country's search for a new national identity.

This uncertainty is highlighted every time Russian athletes step up to receive medals for their homeland. The USSR's collapse made the Soviet anthem to world revolution an anachronism. But the old hymn of pre-revolutionary Russia, "God Save the Tsar", is also inappropriate for the new Russian republic.

The country's legislators adopted a melody by Glinka as their new anthem, but have yet to agree on the words. So to celebrate their victories, fans can do no more than hum along.

Russians sometimes express their rage at this fall from grace by mocking the newly independent former Soviet satellite states, for whom the end of the Soviet Union was a liberation, not a loss.

During the live television broadcast of the opening ceremony, the announcer for one of Russia'e networks joked: "Here comes the team from independant Mongolia. They're independent because no one depends on Mongolia for anything at all."

The comment was heard in thousands of Mongolian homes, and the Mongolian government protested to the Russian ambassador.

This spell of Soviet nostalgia has enticed many of Russia'e leading commentators to return to their favourite cold war sport: US-bashing. For the first time since tha collapse of the Soviet Union, Moscow's newspapers have attacked the Olympics' hosts, accusing them of terrible organisation, blatantly favouring their own athletes and even rigging bureaucratic blunders in a devious attempt to distract foreign competitors.

A correspondent for Sevodnya, Moscow's liberal daily, tartly observed: "We can't accuse the Americans of being inhospitable. It's simply that they are so full of themselves that they don't even notice their rivals."

Izvestia quoted Mr Vladimir Lukin, a former Russian ambassador to the US and now the chairman of the parliamentary commission on foreign affairs, accusing the Americans of "national egoism".

"Can you imagine us bringing out tanks and missiles during the 1980 Moscow Olympics? At Atlanta, military fighter jets flew over the stadium and there was no scandal," Mr Lukin complained.

But, encouraged by the unexpectedly strong performance of their cash-strapped and territorially reduced nation, not all is gloom. At least some observers are beginning to celebrate these Olympics as a sign of Russia'a admission to the international community, as a democratic and independent state.

"This is the first time in which Russia is playing as a separate country and Russian fans can support their very own nation," said Mr Victor Khrushchev, sports correspondent for Sevodnya. "That makes these a very special games. When I see our athletes, like Popov [the gold-medal winning swimmer] I am proud."

Chrystia Freeland in Moscow

Fewer but better Russians: Alexander Popov celebrates victory Reuter

ATLANTA DIGEST

Collinelli breaks record twice

Andrea Collinelli of Italy set two world records in men's individual pursuit cycling yesterday at the Olympic track in Stone Mountain Park. Collinelli first clocked 4:19.699 over the 4km distance, breaking the old record of 4:20.894 set by Graeme Obree of Britain, and later in the day clocked 4:19.153. Obree himself crashed out of the individual pursuit in the first round. The 30-year-old Scot, who has been suffering from a virus, was beaten by Australian Bradley McGee. *AFP*

Italians go out of football

Ghana defeated soccer aristocrats Italy 3-2, eliminating the Italians from the Olympic tournament in a hot-tempered, foul-filled game. The result keeps Ghana in contention for a quarter-final berth. It also caused more misery for Italy, which went into near-mourning when its national team failed to advance past the first round of the European championship last month. *AP*

Libyans find a welcome

Libya'e tiny Olympic delegation say they are being treated well at the Atlanta Games, despite being blacklisted and branded a "terrorist" country by the US. "The United States is not exactly the right friend for Libya at this time. But nobody has said anything bad to us and people are not afraid of us. The Americans are friendly people," said Mr El Mehdi Abu-Kheirat, Libyan national Olympic committee general-secretary and head of a team of five athletes. *Reuter*

Results

Equestrian

Three-day event final result: 1 Australia, 203.85; 2 US, 261.1; 3 New Zealand, 268.55; 4 France, 307.65; 5 Britain, 312.90.

Shooting

Women's three-position: 1 A Ivosev (Yugoslavia), 686.1; 2 I Gerasimenok (Russia), 680.1; 3 R Mauer (Poland), 679.8.

Cycling

Men's 1km time trial: 1 F Rousseau (France), 2 E Hartwell (US), 3 T Jumonji (Japan).

Tennis

Men's singles first round: J Stoltenberg (Australia) bt S Ladipo (Nigeria) 7-6 (7-4), 6-3; N Pereira (Venezuela) bt H Gumy (Argentina) 6-4, 6-0; Renzo Furlan (Italy) beat Jiri Novak (Czech Republic) 4-6 6-4 6-3; Thomas Enqvist (Sweden) beat Marc-Kevin Goellner (Germany) 7-6 (7-4) 4-6 6-4; Marcelo Filippine (Uruguay) beat Luis Morejon (Ecuador) 6-7 (3-7) 7-5 6-1.

Women's singles first round: C Martinez (Spain) bt P Schnyder (Switzerland) 6-1, 6-2; S Farina (Italy) beat C Wood (Britain) 6-2, 6-2; F Labat (Argentina) bt E Makarova (Russia) 6-2, 7-5; A Sugiyama (Japan) bt K Studenikova (Slovakia) 6-2, 6-3.

Selected events today

Fencing: Women and men's team foil finals.

Judo: Women'e and men's half-lightweight finals.

Swimming: Women'a 200m back final, women's 800m free final, men's 50m free final, men's 200m medley final, women's 4x200m free final.

Other teams have more modest dreams

Caryl Phillips talks to Angola's Herlander Coimbra, up against the US basketballers again

There is little entertainment in watching a group of American multi-millionaires humiliating young men from Africa. At one end was the US basketball "Dream Team" – one player has just signed a contract worth $121m – and at the other was Angola, whose most famous player has the humble ambition of, one day, buying a car.

That player, Herlander Coimbra, is 26 years old, and basketball has allowed him to travel and make a little money. In Angola, and all over the basketball world, he is known as the man at the centre of one of the ugliest incidents during the Barcelona Olympics, when the unlike elbow of the US'e Charles Barkley sent Coimbra sprawling to the floor.

Asked after the game to justify his assault, Barkley said Coimbra "might have been carrying a spear", an ungenerous remark from a man quick to remind people that: "If they're not from this country, I want to beat them and beat them bad."

Four years later, and Angola has improved, relatively. They lost to the US by only half the margin of 1992, 87-54 instead of 116-48, but an unlucky loss to China means they need to win all their games against Croatia, Lithuania and Argentina to have even a chance of a medal.

After the China game, while the dispirited Angolan coach was explaining that he had no idea why his team's best player had gone "missing" in Portugal, I left the interview room and found Herlander Coimbra standing sheepishly in the corridor.

"Speak English?"

"Yes," said Coimbra.

"You will be playing the American Dream Team on Monday. And once again you'll meet Charles Barkley."

Coimbra shuffled uneasily and looked at the space between his feet. "I do not like him. But I play basketball."

I wondered if Coimbra would be seeking any revenge? He seemed ambarrassed at the suggestion: "Four years ago I was a kid. Now I am a man, but I do not have the muscles to fight."

I asked him what he expected out of his basketball career. He did not have to think for long. "A house, a car and maybe if I am lucky, a wife."

By now the other journalists had left the interview room and were surrounding Coimbra. What, asked the NBC journalist, did he think of Shaquille O'Neal'a recently signed $121m deal with the Los Angeles Lakers? Coimbra began to laugh.

Coimbra's home is a country riven by a 20-year war. Life expectancy for men is 45 and for women 48. Their best players hope to attract the attention of scouts from European teams, allowing them to leave Africa and play professionally. Six of the Angola squad play in Europe, but even these do well to make more than the salary of a school teacher. Coimbra is not one of them.

I visited the spectacular Georgia Doma to watch Angola play the Dream Team. There is not much to be said about the game. Charles Barkley managed not to hit Coimbra, and Angola lost.

As Coimbra left the court, I asked him what the Angolans had learned from this experience of playing in front of such a huge audience? Dejected, he shrugged his shoulders and began to walk away from me. More to the point, I thought, what had the Americans learnt? Probably nothing. Winning was never an issue. And, clearly, neither was sportsmanship. Nothing less than total domination would suffice, and the crowd's braying and hooting served only to spur the team on.

The fact is, in sport, true entertainment can only emerge through competition. Two well-matched teams trying their best, no matter how technically inept they are, always have the potential to entertain.

There was no sign of Coimbra after the game. He is not good enough to attract the attention of any scouts, and he may well not make the next Olympic team. But he did play in two Olympic games. If he lives an average Angolan lifespan he will be dead in 17 years. During the second half of the "game" I calculated that Shaquille O'Neal's annual earnings on the basketball court could have bought Coimbra a car, a house and $10,000 of "courtship money" out of what he earned in the first nine minutes of the game.

■ *Caryl Phillips is in Atlanta for the Financial Times. He was born in the West Indies, brought up in Leeds and educated in Oxford. His novels include Crossing The River, which was shortlisted for the 1993 Booker prize for literature. He is professor of English and creative writing at Amherst College, Massachusetts.*

Government stamp duty reform signals end to privileges for marketmakers

Stock Exchange set for overhaul

By John Gapper, Banking Editor

The government yesterday offered relief from stamp duty to all broking firms trading on UK stock exchanges, clearing the way for the abolition of special privileges and obligations for the marketmakers of the London Stock Exchange.

Mr Kenneth Clarke, the chancellor of the exchequer, accepted the advice of the Securities and Investments Board, and promised exemption from stamp duty for all intermediaries from 1997. Until now, exemption has been confined to marketmakers.

The Treasury estimated the decision would not affect substantially the £1.3bn ($2bn) gained from stamp duty was more radical than expected. The SIB had been asked to recommend obligations to accompany tax exemption.

The Treasury has proposed that all intermediaries that hold on to shares for less than a set period should gain exemption. However, investment banks said last night that this approach could disrupt current methods of handling shares.

Mr Clarke said the changes should "provide a sound fiscal and regulatory framework" for the exchange's proposed reform of share trading methods from next year. The reformed market will rely less heavily on marketmaking firms.

Prices in the exchange's proposed new market will primarily be determined by electronic matching of buy and sell orders on screens. It proposed new obligations for "registered principal traders" (RPTs) taking the place of marketmakers.

The Treasury's decision is likely to obviate the need for a special category of RPT. Instead, all brokers will be eligible for tax exemption when they trade on the Stock Exchange, or on Tradepoint, a rival screen-based equity exchange.

Sir Andrew Large, SIB chairman, said that giving stamp duty relief to all intermediaries should encourage liquidity on the exchange's reformed market. It should entice firms to provide a broader range of broking services to investors.

Mr Richard Kilsby, the Stock Exchange's director of market services, said he was "pleasantly surprised" at the nature of the proposed tax reform. This would provide a "demonstrably level playing field" for all of its members.

In addition to the proposed tax reform, the exchange agreed with the SIB to take further steps to improve transparency of pricing. Trades bigger than six times the normal size should be disclosed immediately, rather than after an hour.

Editorial Comment, Page 9
Lex, Page 16

Aggressive methods used to take over the management of listed investment funds may be curbed by the Stock Exchange after a review of the rules on how managers are appointed, Roger Taylor writes.

The move follows a number of contentious takeover battles for investment funds, such as the fight for control of the GT Chile Growth fund, which ended with the break-up of the fund earlier this year.

Attention is likely to focus on whether shareholders in a fund should be allowed to vote in favour of resolutions awarding themselves the contract to manage the fund. A practice among more aggressive investment management companies is to buy a large stake in a listed fund and put a motion to shareholders calling for them to be appointed investment managers. By using its shareholding to support the motion, the company can capture valuable management fees.

The technique was used by Regent Kingpin, part of the Hong-Kong based Regent Pacific group, in its attempt to control the GT Chile Growth fund. Also, last year, Jupiter Asset Management used its own 30 per cent stake to support its takeover of the North American Gas Investment Trust.

Ban on sheep products confirmed

By George Parker, Political Correspondent

Mr Douglas Hogg, the agriculture minister, yesterday confirmed plans to ban the sale of sheep and goat brains as part of an EU-wide initiative to ensure that BSE – or mad cow disease – is not transmitted to humans by other animals.

Mr Hogg told the Commons the measure would not have a significant economic impact because 99 per cent of brains were already destroyed, but some Tory MPs said his announcement would provoke alarm among consumers.

The agriculture minister returned from another tense EU farm council meeting in Brussels to make the latest statement on measures to tackle BSE.

Mr Hogg said Government advisers had informed him of the "theoretical risk" that BSE could be passed from cattle to sheep. On Monday EU farm commissioner Mr Franz Fischler called on all member states to take action to prevent sheep's brains, spinal cord and spleen entering the food chain.

Mr Hogg said he was consulting on the new measures and said action at an EU level was preferable.

Mr Hogg's announcement of new measures on affecting sheep and goats was greeted with dismay by some Tory MPs. "These measures are a dastardly plot by European vegetarians who want to put us all off eating meat and get us all eating nut cutlets," said Mr Paul Marland.

Meanwhile, the government announced a new aid package for beef and dairy farmers totalling about £200m in a deal aimed at persuading them to co-operate with this autumn's selective slaughter of cattle.

Mr Hogg confirmed that between £160m and £180m would be offered to farmers affected by the cull, and announced a further £29m for *farmers who had sold cattle at* depressed market prices after since the BSE crisis started in March.

UK NEWS DIGEST

Lottery bribe row simmers on

Mr Richard Branson, the chairman of Virgin Group, yesterday dismissed as "worthless" and "toothless" a report clearing a member of the Camelot National Lottery consortium of trying to bribe him.

Oflot, the lottery regulator, published the report by Miss Anne Rafferty QC, a senior criminal barrister, who said her inquiry was "not able to find as a fact that there was any attempt to bribe Mr Branson on September 24 1993".

In a BBC programme last December, Mr Branson accused Mr Guy Snowden, chairman of GTech Corporation, the US lottery equipment company, of having offered him an inducement to pull out of the bidding for the lottery licence. The two men are suing each other for libel. *Clay Harris, London*

■ DEFENCE

Spending delay attacked

Pressure on the government over defence spending increased yesterday as the all-party Commons defence committee said it would not support spending plans until a firm budget for the Ministry of Defence had been agreed.

Service chiefs also expressed concern that the delays to £4bn ($6.24bn) of defence orders, which were due to have been announced before parliament rose last night, indicate the Treasury intended to cut the MoD budget substantially in the current spending round.

MPs added to pressure on the chancellor of the exchequer, Mr Kenneth Clarke, to allow the orders through, saying that they wanted a public assurance from ministers that the MoD's budget would not be cut. In the absence of this, the committee has threatened to vote against the government in the defence debate due to be held when parliament returns on October 14. *Bernard Gray, London*

■ NORTHERN IRELAND

Police controls reviewed

The British government made an attempt last night to pre-empt violence at next year's marching season in Northern Ireland by announcing a review of the use of plastic bullets and the policing of parades. The move coincided with the disclosure that a number of men, suspected to be loyalist paramilitaries, were being held in apparent connection with the murder of a Roman Catholic taxi driver near Belfast two weeks ago. *Financial Times Reporters*

■ INDUSTRIAL DISPUTE

ACL returns to Mersey Docks

Atlantic Container Line, the largest container group customer using the port at Liverpool, in England's north-west, is returning its business in spite of the continuing industrial dispute, Mersey Docks and Harbour Company announced.

Less than a month ago ACL intended to switch its main UK port of call from Liverpool to Thamesport in the south-east. ACL's move is seen more as a reaction to the effect of the dispute on the company's American east-coast activities than on what is happening in Liverpool. The International Longshoreman's Association, the US maritime union, has been applying pressure on ACL in solidarity with the Liverpool dockers who have been in dispute with the management since last September. As a result, Mersey Docks has taken out a civil action in the US courts against the union and its president.

Last month Mersey Docks withdrew its "final" £8m ($12.48m) offer to the 329 sacked dockers in retaliation for ACL's decision to pull out of Liverpool. *Robert Taylor, London*

■ REGULATION

Utility controls questioned

The whole system of utility regulation in the UK is called into question by a long-awaited report from the National Audit Office published yesterday.

The public spending watchdog questioned whether the regulators were striking the right balance between the interests of customers and the companies. It also asked whether the regulators carried out their work too secretively.

Many of the NAO's concerns mirror those of the opposition Labour party, which will shortly publish a policy document on utility regulation. *David Wighton, Whitehall*

■ PRIVATISATION

AEA Technology to be floated

The government has announced it will float AEA Technology, the science and technology services company later this year, possibly as early as September.

The flotation could well be the last on the government's privatisation menu before a general election now expected early next year. Sir Anthony Cleaver, the chairman of AEA Technology, declined to give an estimate of the company's worth, although some reports have valued the company at £200m ($312m). The company's unaudited results for 1995-96 show turnover of £253m, roughly the same as the previous year, and profits of £19.8m, up from £7.4m. The government has appointed Cazenove as brokers and Schroder as advisers. Lazard is advising AEA Technology. *Leyla Boulton, London*

■ TUBE STRIKE

Disruption could cost £330m

The wave of strikes by London Underground train drivers could cost Britain up to £330m ($514.8m) in lost output if they continue as planned into September, according to Chantrey Vellacott, the chartered accountant. The strikes continue *today with a 24-hour stoppage.* Chantrey Vellacott estimates that every 24-hour stoppage on the capital's tube network incurs a net cost of £30m. *Robert Taylor, London*

Consumer spending rise best since 1988

By Gillian Tett and Christopher Brown-Humes

Shops outside the UK's food sector are now seeing the fastest increase in sales for eight years, official figures showed yesterday.

Consumer spending in non-food stores was 2.4 per cent higher between April and June than in the previous three months – the sharpest rise since 1988.

The upturn provides welcome relief to the country's retailers, and support for the forecast by Mr Kenneth Clarke, the chancellor of the exchequer, that he will go into the general election by next May on the back of rising consumer confidence.

However, City of London economists warned it is less *likely the chancellor will cut* interest rates again when he meets with Mr Eddie George, governor of the Bank of England, the UK central bank, next week.

With a survey this week showing that manufacturers are also reporting better sales, the combination of rising factory demand and higher consumer spending could heighten the risk of rising inflation, they argue.

The chancellor last cut rates from 6 per cent to 5.75 per cent in early June following several months in which manufacturers were reporting weaker order books and retailers endured patchy trading conditions.

Measured overall, the value of sales in June was 7.4 per cent higher than a year earlier, while the seasonally adjusted volume was 3.3 per cent higher.

In the three months to June, sales were 1.3 per cent higher than the previous three months and 2.7 per cent above last year's levels, the strongest picture since early 1994.

Food sales showed steady growth, but there was a sharp *increase in sales of household* goods, clothing and other durable items.

Retailers yesterday welcomed that stronger spending was spread across most categories, arguing that it suggested that the upturn was now more widely based.

However, they denied there was any likelihood of a repeat of the 1980s consumer boom or surge in inflation, arguing that competition remained intense on the high streets.

John Stillwell

Former soccer star Trevor Brooking (left) and athlete Judy *Simpson joined the prime minister, John Major, yesterday as he* unveiled plans for a British Academy of Sport to be funded by £100m ($156m) from the National Lottery. Mr Major said it would help develop a new generation of British champions.

World Service wins fresh review

By Bruce Clark, Diplomatic Correspondent

Campaigners against a plan to reorganise the BBC World Service *claimed their first success* yesterday after the BBC agreed to a proposal by the Foreign Office for a joint study of the proposed reforms.

The study, which will seek the views of independent experts and report its findings by October, was announced after a meeting between Mr Malcolm Rifkind, the UK foreign secretary, and Sir Christo*pher Bland, the BBC chairman.*

Mr Rifkind told Sir Christopher of his unhappiness over the BBC's failure to consult the Foreign Office, which funds the World Service, over a reorganisation which has prompted fears about the independence of the broadcasting service.

Under a plan sketched out by Mr John Birt, the BBC's director-general, the making of pro*grammes for the World Service* would be be overseen by powerful new directorates responsible for all radio and television output, domestic and overseas.

The BBC chairman insisted at yesterday's meeting that the changes would not affect the "distinct agenda" of the World Service or compromise its high quality. He also assured Mr Rifkind that the spending of Foreign Office funds would be kept separate from other BBC expenditure. The Foreign Office had expressed fears that it would be forced to subsidise domestic programmes if the separate identity of the World Service was blurred.

In a joint statement after the meeting, the two sides said a joint working group would be set up to "address the concerns of the Foreign Office" and report to Mr Rifkind and Sir Christopher, who would meet again in October.

"This appears to be good news," said a journalist involved in the Campaign to Save the World Service. "It *seems that the foreign secre*tary did not fully accept the verbal assurances he received from the BBC."

Increased flexibility boosts tractor output

New working methods have contributed to an erosion in Germany's production lead

The busy shop floor at Massey Ferguson, part of Agco of the US, helps to explain why the UK is poised this year to become Europe's biggest volume producer of agricultural tractors. The factory on the outskirts of the midlands city of Coventry turns out about 100 tractors a day, most of them with different specifications, in a prime example of large-scale, "customised" manufacturing.

Mr Aaron Jones, a Welshman who is vice-president of global manufacturing with Agco, says one of the advantages of the Coventry site is the speed with which the 1,350 factory workers can move between different jobs to suit the requirement to make a range of tractor types.

"I have visits from German colleagues who are surprised at how quickly we can move people around the factory. We can do this in a matter of hours, while in Germany they need three months of consultations," he said.

This year's production figures point towards the UK being slightly ahead of Italy and well in front of Germany – which had the edge on Britain as recently as 1992.

Agricultural tractor production (1,000 units)

	UK	Italy	Germany	Europe
1988	64.0	82.0	71.7	276.3
1989	[illegible]	[illegible]	[illegible]	[illegible]
1990	65.4	72.6	85.2	269.6
1991	[illegible]	[illegible]	[illegible]	[illegible]
1992	49.0	61.3	52.9	193.3
1993	[illegible]	[illegible]	[illegible]	[illegible]
1994	62.7	62.0	47.5	201.5
1995	[illegible]	[illegible]	[illegible]	[illegible]

Source: Off-Highway Research, London

In 1996, according to industry estimates, the UK will make 69,000 complete tractors in addition to 11,000 in "knock-down" kits.

These are packages of tractor parts for later assembly, normally outside the UK and sometimes with the addition of some locally produced components. Of the total, worth £1.5bn ($2.34bn) at customer prices, about 15 per cent will be exported.

Last year, according to Off-Highway Research, a London consultancy, Britain made 64,400 tractors, 30 per cent of the European total. The proportion has risen steadily since the late 1980s when the UK's share hovered around 23 per cent. In 1995, Italy was marginally ahead of the UK in production with 70,000 machines. Many of these were low-horsepower "mini-tractors", of lower sales value than the average UK-built machine.

The big loser over the past decade has been Germany, where tractor production has declined from 70,000 to 80,000 a year in the late 1980s to about 60 per cent of this figure.

All three main producers – which together account for more than 90 per cent of the UK's tractor output – are overseas-owned. As well as Massey Ferguson, there is Case of the US and New Holland, owned by Fiat of Italy. But the sector also supports hundreds of largely UK-owned components companies.

Part of the reason for Britain's leading role in tractors, according to Mr Chris Barrow-Williams of Off-Highway Research, is "strong management at the main UK-based tractor companies which have defended their position very well". Another factor is a long run of fairly high demand from UK farmers who have been among the leaders in Europe in mechanisation.

At Massey Ferguson, a series of changes to get people to work together in teams, plus tough agreements with the factory's 200 or so suppliers to get them to deliver on time and to high standards of quality, have cut the time it takes to make a complete tractor from 12 weeks from receipt of the order in the late 1980s to six weeks now.

Massey Ferguson's Coventry site is poised to make the equivalent of 35,000 complete tractors this year, making it marginally Britain's biggest tractor factory, ahead of New Holland's plant in Basildon, Essex. That site, with 2,600 workers, is expected to make 33,000 tractors this year – up on 29,000 in 1995.

In the past few years, the New Holland factory has been divided into three free-standing units to break down hierarchies and get people used to working in relatively small organisations.

According to Mr Martyn Vaughan, the Basildon plant manager, such detailed work changes have been a crucial factor in Basildon's productivity record.

The third large tractor factory in the UK, in the northern town of Doncaster, is run by Case and makes 11,000 machines a year. Although employment there is being cut from 1,400 to about 750 next year, annual production is due to climb to about 14,000 in 1998. The rise in production is a result of Case's decision to shut its other large European tractor plant, in Neuss, Germany next year and will lead to production being switched to the UK.

After Case decided early in the 1990s that it needed only one large tractor plant in Europe, Doncaster won out in the battle with Neuss to stay open, largely because of its lower costs and higher worker flexibility.

Peter Marsh

Radical reform to leasing proposed

By Jim Kelly, Accountancy Correspondent

Companies which lease large assets could have their balance sheets transformed by a radical reform floated yesterday by the Accounting Standards Board. The proposed changes could also damage the UK leasing industry.

The reforms would increase the gearing of companies which lease assets such as aircraft, computers, property and cars because they would have to show in their balance sheets how much they cost to hire.

The long-term reforms envisage abolishing so called operating leases which allow the assets and liabilities tied to such leases to be kept out of a company's accounts.

Accounting for leases is a global problem. Some companies abuse the rules, particularly in the US, by constructing leases so that they qualify as operating leases – rather than finance leases.

The plans for reform are contained in a discussion paper written by Australian standard setters but published by the UK board and its counterparts in the US, Australia, New Zealand and Canada and the International Accounting Standards Committee – a group known as G4+1. The paper is a tentative beginning to what could turn into a fierce debate.

While individual countries may not force companies to comply for several years, it does represent the long-term thinking of most standard setters. Reform in the UK would take at least five years.

The International Accounting Standards Committee, which is writing a set of core standards for use in international markets, said it would not follow the paper's radical ideas in the short term but accepted its long-term aims.

Leasing is popular among British companies which see it as a way of freeing up capital and maximising tax benefits. According to the latest figures more than $13bn (£8.3bn) of new lease contracts were signed in 1994.

Companies can class a lease as an operating lease if, under the contract, they end up paying less than 90 per cent of the value of the asset. If more than 90 per cent is to be paid then it is classed as a finance lease and assets and liabilities associated with it must appear in the lessee's accounts. This has spawned a minor industry in constructing leases which result in a company paying 89 per cent of an asset's value.

The effect of the reforms would be to treat most leases in the same way as finance leases.

The board's proposals will be seen as an ambitious attempt to set the agenda for accounting standards. "Certainly such radical reforms would have an impact on the leasing industry by taking away the balance sheet advantage of operating leases," said Gerry Acher, head of audit at KPMG.

A behind-the-scenes tussle between Mr Michael Heseltine, the deputy prime minister, *and the Department of Trade* and Industry has led to the last-minute postponement of a government announcement on the reform of the partnership laws.

The DTI planned to announce this week that it was committed to the long-term reform of the law in an attempt to dissuade the big accountancy firms from registering offshore to protect the personal wealth of partners from lawsuits.

But it is understood that Mr Heseltine thinks reforms, which would not come on stream until possibly 1998, would be too late to stop the firms registering in Jersey and that as a result the reputation of the City of London would suffer. He wants the DTI to look again at "quick fix" solutions which could be implemented by December.

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COMPANIES & MARKETS

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IN BRIEF

Olivetti warns of fall in PC demand

Olivetti, the Italian information technology and telecoms group, warned that its troubled personal computer subsidiary would be hit by a drop in demand in the second half of 1996. Volumes would be "lower than originally estimated by the company and by the main sector analysts", it said.

Olivetti said the PC company had recorded a pre-tax profit of L1.1bn ($727,000) in the second quarter of 1996 and a pre-tax loss of L16.9bn in the first quarter, mainly because of the costs of establishing the new subsidiary in January. Sales of Olivetti PCs increased 17 per cent compared with the first half of 1995. Mr Carlo De Benedetti, Olivetti's chairman, warned earlier this year that the group might abandon the PC sector if the subsidiary did not break even in 1996.

Vereinsbank ahead sharply midway
Bayerische Vereinsbank began the interim results season at German banks with a 24 per cent rise in first-half operating profits to DM665m ($446.4m) after risk provisions. Page 12

Hoechst to separate German businesses
Hoechst, Europe's largest chemicals company, is to separate its German pharmaceutical and chemical businesses as a step "towards the planned spin-off of the global pharmaceutical business". The reorganisation would begin on August 1, it said. Page 12

ITT postpones share issue
ITT, the US owner of such landmarks as Caesar's Palace in Las Vegas and Madison Square Garden in New York, called off a planned share issue through which it had hoped to raise $565m, following the recent weakness in US share prices. Page 14

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Bank Berlin	305	+	9
Falls			
Allianz	1058	-	25.5
Degussa	488	-	11
MAN Pref	375	-	8.5
Porsche	830	-	13
SAP AG	207.5	-	8.5
NEW YORK ($)			
Rises			
Bay Network	23¾	+	2
Cadence Des	25¾	+	2¼
US Surgical	31¼	+	3¾
Falls			
[illegible]	[illegible]	-	[illegible]
LONDON (Pence)			
Rises			
[illegible]	[illegible]	+	[illegible]
Falls			
[illegible]	[illegible]	-	[illegible]
TORONTO (C$)			
Rises			
[illegible]	[illegible]	+	[illegible]
Falls			
[illegible]	[illegible]	-	[illegible]
PARIS (FFr)			
Rises			
Alcatel	357	+	8.2
[illegible]	[illegible]	+	[illegible]
Legrand	933	+	19
Peugeot	590	+	17
Soc Generale	551	+	17
TOKYO (Yen)			
Rises			
Daiichi Steel	317	+	14
Falls			
Calsonic	836	-	24
Citizen Watch	852	-	27
Fuji Spinning	332	-	38
Kikkoman	816	-	33
Tokai	711	-	31
HONG KONG (HK$)			
[illegible]	[illegible]		[illegible]
BANGKOK (Baht)			
[illegible]	[illegible]		[illegible]

New York and Toronto prices at 12.30pm.

Japanese issues reach 5-year high

By William Dawkins in Tokyo

Strengthening domestic economy drives sum raised on Tokyo stock exchange in first half past total for 1995

The improvement in the Japanese economy has encouraged companies to turn to the stock market for equity financing at the highest rate for more than five years.

Japanese companies raised Y2,557.3bn ($23bn) from issues of shares and convertible bonds in the first six months of the year, comfortably more than the Y2,239bn raised during the whole of 1995, according to the Japan Securities Dealers' Association.

They were, at least until the stock market collapse of the past few days, attracted to the market by the rise in equity prices, said an association official. Most are using the cash raised for capital investment.

More Japanese companies are also becoming attracted by the cheapness of equity finance, a break with the tradition of heavy reliance on bank debt.

Equities currently yield an average of 0.7 per cent, far cheaper than the 3.3 per cent prime lending rate which commercial banks now charge top industrial borrowers for long-term loans.

Another feature of the rise in equity funding is the number of companies tapping foreign capital markets.

Of the first six months' total equity funding, 67 per cent was raised on the Tokyo stock market and the rest abroad. Three years ago, 52 per cent of Japanese companies' equity finance came from abroad, according to the association.

This trend should provide some comfort to stock market authorities, which fear Tokyo is losing its prominence as a financial market to cheaper and less tightly regulated competitors in Asia and Europe.

However, foreign companies, with less need to be physically close to Japan, are continuing to withdraw from the Tokyo market, deterred by high costs, regulation and low turnover in their shares.

The latest foreign company to announce its intention to delist from Tokyo is BOC, the UK industrial gases group, which is to finalise its departure in October.

This brings the number of non-Japanese companies listed on the exchange to 69, a mere 54 per cent of the peak of 127, which was achieved in 1991.

World stocks, Page 30

Compaq beats earnings forecasts

By Christopher Parkes in Los Angeles

Compaq, the world's leading personal computer maker, brought the US technology sector some much-needed good news yesterday with forecast-beating second-quarter earnings and an upbeat view of the rest of the year.

Despite fierce price-cutting, margins increased and helped lift earnings per share 6.7 per cent to 96 cents compared with 90 cents a year ago, and analysts' forecasts of only a 1 cent improvement.

Group net income of $267m was 8.5 per cent higher, bringing earnings for the first half to $1.81, compared with $1.69.

By midday, the Texas-based company's stock had recovered much of the previous day's losses caused by a broad fall in technology shares, which occurred despite Microsoft's report of a 50 per cent rise in quarterly earnings the day before.

"Our outlook calls for a strong second half," Mr Eckhard Pfeiffer, Compaq president and chief executive, said. The company was in an excellent position to gain market share thanks in part to products launched in the past few weeks.

Management was "comfortable" with analysts' estimates that third-quarter earnings would reach $1.03 a share, according to Mr Earl Mason, chief financial officer, who also reported a strong order book.

There were even signs of improvement in the European market, one of the few detectable weak spots in yesterday's figures, where sales had increased only 1 per cent during the quarter to the end of June. Group revenues rose 14 per cent to $4bn from $3.5bn in the review period.

The main surprise for analysts was the recovery in gross profit margins to 23 per cent during the review period from 21 per cent in the previous quarter, which the company said was due mainly to improved logistics, inventory cuts of $400m in the past six months, and the effects of new products.

Mr Mason said he expected margins to remain at 23 per cent for the rest of the year.

The company, which has recently announced new ranges for business, domestic, laptop and server applications, claims to have developed new manufacturing systems which reduce production costs of some models by 17 per cent.

A clutch of new Deskpro business machines was launched worldwide at the weekend with expected retail prices up to 15 per cent lower than the previous commercial range. The cheapest, with a 100MHz Pentium microprocessor, costs about $1,100 in the US.

Volvo launches Pharmacia stake sale

By Greg McIvor

Volvo, the car and truckmaker, has launched one of Sweden's biggest share offerings by offloading two-thirds of its 14 per cent stake in Pharmacia & Upjohn, the Swedish-US drugs group, for $1.84bn.

The Swedish company yesterday announced a price of $40 per share for the tranche of 46m shares being offered to institutional investors. Pharmacia & Upjohn's stock dropped below the offer price on a jittery Stockholm bourse, shedding SKr6 to SKr260.

Volvo reported "tremendous" demand for the global offer. It indicated that an option to sell 6.9m additional shares to underwriters in the case of any oversubscription was likely to be fully exercised, taking the amount raised to $2.1bn.

Although world pharmaceutical stocks have been weaker this year, analysts suggested the timing was broadly favourable. Shares in Pharmacia & Upjohn have climbed by about 60 per cent since the company was formed last year from the merger of Sweden's Pharmacia and Upjohn of the US.

"The sale by Volvo might allow Pharmacia & Upjohn to get on with a few things they might like to do," said one London-based pharmaceuticals analyst, suggesting it might look for a US acquisition. The company called off a planned tie-up with Allergan, a US optical healthcare group, in May.

Volvo had committed itself to selling its holding in Pharmacia & Upjohn by the end of this year but backed away from divesting the entire stake amid worries about the difficulties of placing such a large tranche. It has pledged to retain its residual holding for six months.

The placing marks the biggest step in Volvo's disposal of more than SKr40bn ($6.1bn) of non-core assets. Excluding the Pharmacia & Upjohn transaction, its receipts stand at SKr21bn.

Its largest remaining holdings comprise a half share of Pripps Ringnes, a Nordic beer and soft drinks group, and an 11.4 per cent interest in Renault – a legacy of its failed merger with the French vehicle maker. Earlier divestments included holdings in Gambro, the medical technology group, and Swedish Match.

Volvo's growing cash stockpile is intended to underpin its future as an independent vehicle manufacturer and will help fund expenditure on new products and higher output. The company has pledged to invest SKr8bn annually over the next five years in a drive to develop new models and enhance market share.

Roughly half the money will be consumed by the cars division. The balance will be apportioned among its commercial vehicles, construction equipment, marine engines and aerospace activities.

Andrew Hill on manoeuvring at the top of the Italian group

Whiff of intrigue at Fiat's court

When Mr Giovenni Agnelli stepped down as chairman of Fiat earlier this year, "fiatologi" – the nickname for analysts of the company and its founding dynasty – hailed a new era.

Although Mr Agnelli, 75, remained honorary chairman, for the first time in Fiat's 97-year history none of the top executive jobs was in the hands of the founding family. The changes at the top of the company have not, however, resolved the question of who will pilot Italy's largest private sector industrial company into the 21st century.

At last month's shareholder meeting, Mr Cesare Romiti, the new chairman, confirmed that he too would step down when he was 75, in June 1998. Officially, the decision on his replacement will be taken then. Behind the scenes, however, fiatologi say the manoeuvring has already begun.

Under current rules, the decision on Mr Romiti's replacement will be taken by Fiat's shareholder syndicate – a core of investors, including Ifi and Ifil the quoted Agnelli family holding companies. The syndicate takes the main strategic decisions and appoints the main board of Fiat. It was formed in late 1993, with the help of Mediobanca, Fiat's house bank, when the company asked shareholders for a L5,000bn (£2.1bn) capital increase to fund recovery from record losses.

The idea was to reassure the markets that the family had the full support of its key shareholders: Mediobanca, Deutsche Bank, the Italian insurer Generali and Alcatel of France. Plans to replace Mr Agnelli with his younger brother, Umberto, were dropped and the age limit for directors – 75 – was suspended, to prevent Mr Agnelli being forced to leave prematurely.

The capital increase and successful launches of new models such as the Punto, Bravo and Brava, fuelled an impressive and rapid turnround at Fiat, which last year reported a net profit of L2,147bn. The age limit was reinstated at the last assembly. But the shareholder pact remained, with the family represented by Mr Agnelli, chairman of the five-strong syndicate committee "for as long as he wants to be", and his 32-year-old nephew, Mr Giovanni Alberto Agnelli. "The age limit is one thing; the pact is another," Mr Romiti said last week in an interview. "As the Avvocato [as Mr Agnelli is known] says, the reference shareholder for Fiat remains Ifi/Ifil, with the support of certain prestigious shareholders."

Carmaker to kingmaker: Agnelli wants to steer succession process

Ifi and Ifil confirmed their position as principal shareholders this year when they bought Alcatel's 2 per cent stake, giving them 33 per cent of the company. But rather than strengthening the family's position, a change in the rules means that in order to push though a proposal in the syndicate, Ifi and Ifil require the support of at least two other shareholders. That has prompted some family members to start muttering that the pact limits their ability to make the most of their investment in the group they founded.

A high-profile interview in April, in which Mr Giovanni Alberto Agnelli hinted that the grip of the syndicate and Mediobanca should be loosened, has been cited as evidence of tension between the family and supporters of the pact – chiefly Mr Romiti and Mediobanca. Recent off-the-cuff comments by Mr Romiti about family capitalism were interpreted as a riposte to the Agnellis. Some articles have speculated about a rift between Mr Agnelli, Fiat's honorary chairman, and Mr Enrico Cuccia, Mediobanca's honorary chairman, who stepped down last month as the bank's representative on the syndicate.

Mr Romiti dismisses such speculation as "provincial". Mr Cuccia's resignation was purely on grounds of age, according to the Fiat chairman, and the reaction to his own comments was blown out of proportion.

"This is just malicious gossip," he says. "They say that the syndicate limits the family... But it's not a limit. It's in Ifi's interest – and the Avvocato says so – to have the support of these shareholders for all important decisions. Not a limit; a support."

He also points out that up to now every decision taken by the syndicate has been unanimous. Analysts agree that as yet there are few real grounds for tension within the syndicate. While the whiff of court intrigue at Fiat may grab the headlines, middle management is being reinforced with the addition of outsiders, including a number of non-Italians, and the company is pushing ahead with its objective of global expansion, based on emerging markets and the Palio world car project.

That still leaves the syndicate with the difficult task of deciding who should succeed Mr Romiti. Mr Giovanni Alberto Agnelli – a board member and head of the Piaggio scooter company – may be too young for either of the top jobs in 1998. Some analysts suggest the main shareholders are lining up Mr Paolo Fresco, vice-chairman of General Electric of the US, as chairman. The syndicate appointed him to the board at the last assembly and, handily, he reaches GE's informal age limit of 65 in 1998.

Mr Fresco does not even attend his first Fiat board meeting until September and Mr Romiti says it is too early to start kingmaking. But he adds: "[Fresco] has all the qualifications – and if he was named chairman of any large European company that wouldn't surprise me."

Malpas steps up as UK head of Eurotunnel

Robert Malpas: to play a less active role than Sir Alastair

By Geoff Dyer in London

Mr Robert Malpas, chairman of the Cookson industrial materials company, is to succeed Sir Alastair Morton as co-chairman of Eurotunnel once the Anglo-French operator of the Channel tunnel has agreed a refinancing plan with its banks.

Eurotunnel said yesterday that Mr Malpas, who has been on the group's board since 1987, would take up a non-executive chairmanship and would play a less active role than Sir Alastair.

Mr Patrick Ponsolle, the French co-chairman, will become executive chairman on Sir Alastair's departure, reflecting a shift in the balance of power on the Eurotunnel board towards the French side.

Eurotunnel also admitted yesterday that it was unlikely to meet a deadline set by Mr Ponsolle at its June annual meeting for reaching a refinancing agreement with its banks by the end of this month.

Sir Alastair said the company had the basis of an agreement with the banks, but that it was difficult to say when a solution would be finalised because of the holiday season. He said he was optimistic of having an agreement by the autumn.

The group has been in talks with its 225 banks since September when it suspended interest payments on £8.4bn ($13bn) of debt. The refinancing plan is expected to include a debt-for-equity swap and a convertible bond issue.

Eurotunnel said it had chosen Mr Malpas in part because he has a detailed knowledge of the company and the issues it faces. The 68 year-old Mr Malpas has been chairman of Cookson since 1991.

Analysts said he had played a guiding role behind Mr Richard Oster, Cookson's chief executive, in the transformation in the industrial materials group's fortunes in recent years.

Mr Malpas began his career with ICI, where he worked for more than 20 years, and after moving to a US chemicals company he became managing director of BP from 1983 to 1989.

In 1988, he was appointed chairman of PowerGen during its preparations for privatisation. However, he resigned abruptly two years later after a series of boardroom disagreements.

He will take over from Sir Alastair once the banks have approved a refinancing plan, although before the shareholders vote on the proposals which is expected to follow some months later. He is expected to adopt a more low-key public profile than Sir Alastair, who often took a confrontational approach to the job. Sir Alastair, whose contract expires in October, said he would be disappointed if he had not left by Christmas.

Vereinsbank ahead sharply at midway

By Andrew Fisher in Munich

Bayerische Vereinsbank yesterdsy began the interim results season at German banks, with a 24 per cent rise in first-half operating profits to DM665m ($446.4m) after risk provisions.

"I am optimistic that this positive trend will continue in the second half," Mr Albrecht Schmidt, chairman, said. But he declined to comment on the "speculation fever" in the German banking sector following the recent acquisition by Deutsche Bank of a 5.21 per cent stake in Vereinsbank.

He remarked, however, that the banking sector, both private and public, faced considerable changes as costs rose and cnstomers became more demanding.

Mr Schmidt said the entry of Deutsche Bank, Germany's biggest, had added to the quality of Vereinsbank's sharebolder structure, and hinted strongly that this year'a improved performance would be followed by a dividend increase.

Vereinsbank's first-half profits rise – against s weak first half in 1995 – was influenced strongly by buoyant lending to the property sector, in which Vereinsbank is market leader. Cost growth also slowed and earnings from commissions and own-account financial trading increased sharply.

Bnt Vereinsbank increased risk provisions by 13 per cent to DM441m. Mr Schmidt said credit risks had worsened as the economy stagnated, though the bank itself had not had big loan problems with customers. Actual loan loss provisions increased from DM496m to DM579m, offset by a surplus up from DM105m to DM139m from securities held for liquidity purposes.

Mr Schmidt expected little improvement in the economy this year.

Looking towards European monetary union, which he supports, ha said preparations would cost the bank some DM150m. Annual profits of abont DM100m from foreign exchange and payments business would also disappear with the single currency.

Some of Emu's impact was already being felt, Mr Schmidt said. In foreign exchange business with France, for example, there was almost no hedging.

He said the bank's interest surplus was 9 per cent higher at DM2.3bn, largely because of a livelier trend in property financing, although the overall market was difficult.

Commission profits rose 14 per cent to DM582m. Costs were up 6 per cent to DM1.97bn, with staff expenses growing by 3 per cent and investments – inclnding Advance Bank, its new direct bank – up 11 per cent. Financial trading profits were 25 per cent higher at DM192m.

Peter Martin column, Page 8

Trading in Linotype suspended

By Michael Lindemann in Bonn

Linotype-Hell, ths German manufscturer of pre-press equipment whose shares have tumbled in recent months, is to make an "important statement" about its future later today.

Trading in its shares was auspended early yesterday after press reports suggested that two shareholders – Siemens, the electronics and engineering conglomerate, and an investment company – had found buyers for their shares.

Siemens holds 33.3 per cent in Linotype. Frega Vermögensverwaltung, an investment company in which Commerzbank has a 40 per cent stake, has e further 16.67 per cent.

Linotype admitted it was unusual to request a suspension of share trading so far ahead of an announcement but said it had done so to avoid excessive share price movements. The shares were suspended at DM66, having slid from a 1996 high of DM177. A year ago Linotype shares traded at around DM340.

Mr Erwin Königs, chief executive, warned at last month's annual meeting that the group had lost DM30m ($20m) in the six months to June after sales had fallen 9.2 per cent to DM404.7m.

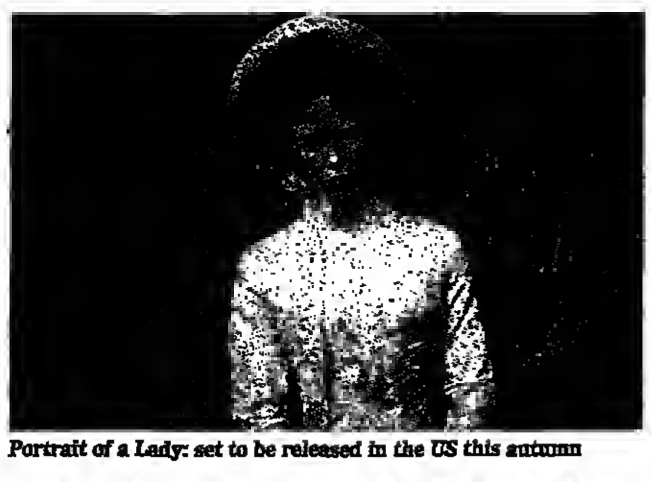
Last year, Linotype reported a loss of DM75m after sales slid 15 per cent to DM861m, down from DM981m the year before.

Analysts yesterday said Linotype might be bought by one of its rivals and shut down to reduce capacity on a badly battered pre-press market.

Its competitors include Agfa, a subsidiary of the Bayer chemicals group; MAN Roland, the German group; and Scitex, an Israeli manufacturer.

PolyGram flat at Fl272m mid-term

By Alice Rawsthorn



Portrait of a Lady: set to be released in the US this autumn

PolyGram, one of Europe's largest entertainment gronps, yesterday announced s 1 per cent increase in net income to Fl272m ($163m) for the first half of 1996, but said it expected a return to profits growth for the full year.

Mr Alain Lévy, chairman, said the group's performance in the first half was "as expected", given the paucity of best-selling albums carried through from the final quarter of last year and the fact that successful 1996 releases, such as albums from Bryan Adams and Soundgarden, came out late in the first half.

The group, which last week was thwarted in its attempt to expand its film interests by buying MGM, the Hollywood studio, mustered a 2 per cent increase in operating income to Fl420m during the first six months of the year on sales up 7 per cent to Fl4.31bn from Fl4.02bn.

PolyGram's shares, which have weakensd recently because of concern about the outcome of the MGM auction, fell by 60 cents to Fl 87.60 on yesterday's announcement.

The music division increased sales by 4 per cent in the first half. Mr Lévy said the five best-selling albums achieved total sales of 13m units, against 17m during the same period of last year. Conversely 15 albums sold over 1m units, against 12 in the first half of 1995.

A number of potential best-sellers are schedaled for release during the second half of the year, including new albums from U2, Sheryl Crow and Cecilia Bartoli.

PolyGram's four year-old filmed entertainment business increased its revenue by 32 per cent in the interim period, fuelled by the box office success of *Trainspotting*, *Mr Holland's Opus* and *Dead Man Walking*. It also reduced its first half operating loss to Fl37m (Fl46m).

Mr Lévy said he hoped for a further increase in film revenue during the second half, when *Portrait Of A Lady*, starring Nicols Kidman, is due to come out, together with *Sleepers*, starring Robert De Niro and Brad Pitt. He also aims to continne the reduction in losses.

Lex, Page 10

Mediaset shares slip below float price

By Andrew Hill in Milan

Shares in Mediaset, the Italian television and advertising group, yesterday fell below L7,000 – the price at which they were floated 10 days ago – as uncertainty about the regulatory outlook took its toll.

The group, which is controlled by Fininvest, Mr Silvio Berlusconi's family holding company, warned last week that draft legislation on media ownership could cut as much as L1,000bn ($660m) from its L3,000bn annual turnover.

Since then, the shares have fallen from their peak of L7,745. Yesterday, they fell L220 to L6,849 in a depressed market, following a report by Goldman Sechs which suggested L6,200 was a realistic target price for the stock.

Mediaset's shares began trading on July 15 following a successful public offer and institutional placing which brought 245,000 new investors on to the group's shareholder register, defying predictions that regulatory and judicial problems would hamper flotation.

If the shares continue to trade below L7,000, global co-ordinators of the offer – Imi of Italy and Morgan Stanley of the US – will be unable to release the over-allotment option of 35m shares, leaving Fininvest with a 52.1 per cent stake in the company.

The centre-left Italian government approved draft legislation on television and telecommunications regulation last week. The part relating to the broadcasting sector could be pushed through by decree before August 27, when a constitutional court ruling requires new media ownership rules to be put in place.

According to Mediaset's legal advisers, the draft law could allow the a new telecoms and television regulatory authority to limit the company's revenues to 30 per cent of overall media income.

"The limit would penalise the company because it has already crossed the 30 per cent threshold," Mr Nicolao de'Nobili, an analyst with Carnegie Italia in Milan, said yesterday.

Sources close to Mediaset said yesterday they believed the draft would be altered under pressure from the right-wing opposition, which is led by Mr Berlusconi. "Members of government parties have confirmed publicly that they won't damage Mediaset," said one.

But some analysts believe Mediaset's earnings would still suffer from the requirement to convert one of its three national television channels into a satellite or cable channel by the end of August 1997.

Mediaset confirmed yesterday it was in touch with Mr Elserino Piol, former deputy chairman of Olivetti, the computer group, about the possibility that he might help develop Mediaset's telecoms and multimedia ambitions.

Mediaset, with its allies British Telecommunications and Banca Nazionale del Lavoro, wants to bid to become Italy's third mobile phone operator.

Hoechst to separate German businesses

By Jenny Luesby

Hoechst, Europe's largest chemicals company, is to separate its German pharmaceutical and chemical businesses as a step "towards the planned spin-off of the global pharmaceutical business".

It said yesterday that the German reorganisation would begin on August 1.

The company hopes to complete the operation by the end of April next year, so that it can ask shareholders to approve the establishment of the German drugs arm as a separate legal entity at its annual meeting in May. However, the process may take longer.

The group has already established its drugs businesses to the UK, Italy and the US as separate legal entities, but these businesses were largely free-standing operations gained through acquisitions.

"In Germany, the chemical and pharmaceutical businesses have grown up together over 100 years, sharing sites, plants and staff," Hoechst said. "We hope to be ready to seek shareholder approval in May, but it may take longer."

The separation of the German drugs business, with sales estimated by Hoechst at DM2.6bn ($1.75bn) this year, is crucial to the spin-off, since it accounts for 20 per cent of the group's global drug sales.

The other precursor is the integration of the group's worldwide drugs operation, Hoechst Marion Roussel, following last year's $7.1bn acquisition of Marion Merrell Dow.

Mr Jurgen Dormann, chairman, said earlier this year that the integration was running ahead of schedule, and might be completed by the end of 1997.

Hoechst has not said whether, and how, it will float HMR once it has ring-fenced the business as a separate legal entity.

However, Mr Dormann has pointed out that shareholders in effect already nwn 15 per cent of the group's drugs business.

One of the companies being integrated into HMR is Roussel Uclaf, a French company quoted on the Paris stock exchange.

Hoechst owns 56.6 per cent of Roussel Uclaf, but the other 43.4 per cent is in the hands of private shareholders.

NEWS DIGEST

French-led team wins Slovak GSM licence

Slovakia yesterday became the latest east European country to liberalise its telecommunications sector, by awarding a GSM mobile telephone operating licence to a consortium led by France Télécom. The licence attracted only two bidders.

The losing bidder in the tender for the licence was a consortium led by the Norwegian group Telenor. The Slovak telecommunications ministry said the selected consortium, known as Slovtel, was chosen because of its proposals for low tariffs, fast nationwide roll-out, and the suitability of its domestic partners.

France Télécom owns 35 per cent of Slovtel but will have substantial operational control in the initial stages. Its partners are Slovakia's state-owned electricity and gas utilities, three energy distribution companies, and another local investor. The tender stipulated that local partners should own a majority stake in the consortium.

The licence is one of two the government is awarding. The second has been provisionally given to EuroTel, a consortium of Slovak Telecom, the state-owned fixed-line operator, Bell Atlantic of the US and US West. EuroTel already offers mobile services in Slovakia using low-frequency NMT technology, which has been supplanted by GSM as the global standard.

The licence cost Slovtel $8m. Mr Bruno Duthoit, who led the France Télécom bid, said the consortium would invest up to $200m over 10 years through e mix of debt and equity. Up to 75 per cent of the investment wonld be made in the first two years.

Slovtel has pledged to have the service operating in Bratislava, the capital, and in the central town of Banská Bystrica by the end of this year, and in the eastern city of Košice early in 1997. It has promised to cover 90 per cent of Slovakia by September of next year. Mr Duthoit claimed Slovtel's tariff charges would be 40 per cent lower than EuroTel's and up to 65 per cent lower for certain categories of user.

Vincent Boland, Prague

Aga to buy Praxair plants

Aga, the Swedish industrial gas group, plans to double its market share in the US by buying four air separation plants from Praxair, the largest supplier of industrial gases in the US.

Aga said the value of the transaction was $200m, and included the purchase from Praxair of an air separation facility in Spain. The US plants are located in California, Wisconsin and Connecticut.

Mr Anders Rungard, senior vice-president of Aga's continental Europe and US operations, said the additions would lift the group's US merchant liquid capacity by more than 1,800 tons a day, doubling its overall market share to 7 per cent. He said the impact on pre-tax profits would be "slightly negative" next year, and positive from 1998. The group said the expansion would double its access to manufacturing industry, particularly the food, electronics and defence-related sectors. Aga also said the move would enable it to acquire distributors and build up cylinder gas activities in the new areas.

Greg McIvor, Stockholm

Portuguese bank profits surge

A sharp rise in net trading income helped Banco Portuguès de Investimento, Portugal's leading investment bank, lift net consolidated profits by 137 per cent from Es3.5bn in the first half of 1995 to Es8.3bn ($54.2m) for the same period this year. Trading income improved from a Es900m loss to a profit of Es5.4bn, mainly due to bond trading, analysts said. Cash flow rose by 60 per cent from Es8bn to Es12.8bn. Total assets increased from Es1,254bn to Es1,442bn.

Analysts said earnings were slightly above expectations but could not be compared easily with results for the first half of last year, when shareholdings in BPI were being restructured and the group was preparing a capital increase.

BPI is one of three groups which have deposited sealed bids for 65 per cent of Banco Fomento e Exterior, Portugal's fifth-largest banking group, which is being privatised.

The government has set a minimum price of Es1,980 a share.

Peter Wise, Lisbon

Takeover clears shelves for French retailing shake-up

The war may not yet be over, but one of the most important recent battles in French retailing appears to have been won following the acceptance by Docks de France this week of Auchan's FFr1,370 a share takeover bid.

After weeks of attacking the offer as hostile and unjustified, Docks de France's directors changed tack this week and agreed to sell their shares ahead of the deadline at the end of this month.

As the French newspaper La Tribune quipped yesterday, the board's decision gave a green light to Auchan's "mammouth" bid – a reference to both the size of the tender and to the name of the principal supermarket chain owned by Docks de France.

If, as is almost certain, the offer succeeds, Auchan will have created France's fourth-largest retailer, with combined sales last year of FFr110bn ($21.8bn), and the chance to survive in a market likely to undergo further significant shake-ups.

The key question over the coming months will be the interpretation of the terms of the peace treaty between the two groups, and notably the long-term future of Docks de France as a separate entity.

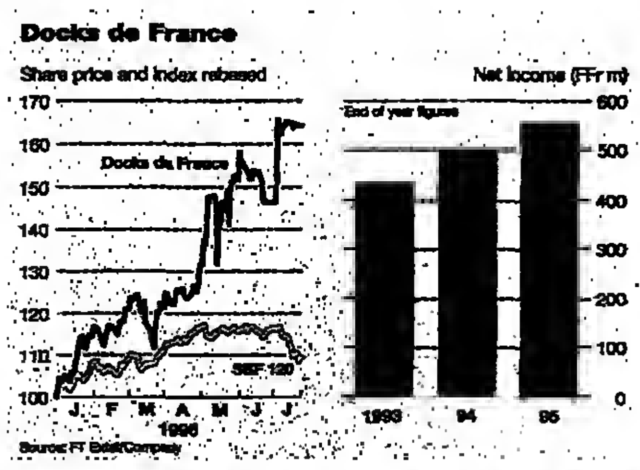
Auchan's bid, launched in June, came as no surprise because it had been steadily acquiring shares in the group since the start of the year. Nevertheless, its bid was unusual in France because it was hostile – a fact that became rapidly apparent from the declarations of Docks de France.

It was also notable because of its size – with its offer valuing Docks de France at nearly FFr20bn – and the price paid, which is more than 40 per cent of the target group's turnover, against previous industry practice of nearer 20-25 per cent.

All these characteristics highlight the desperation gripping the French retail market. One of the most significant reasons is the so-called "loi Raffarin", named after the French minister of small business, which is designed to freeze new commercial developments.

Mr Frédéric Genevrier, retail analyst with BZW in Paris, says its effect will be to limit new store openings, so placing existing stores at a premium. Planning permission for some new stores has already been granted – including three sites for Docks de France – but future development is set to slow considerably.

In addition, Mr Genevrier says the law will increase pressure on the aggressive unquoted retail networks, such as Leclerc and Intermarché, which have maintained an aggressive pricing policy by continually developing new supermarkets to increase their purchasing power. Some of these group's independently-controlled stores may now sell out to the highest bidder.



The good news is that margins are likely to rise, but the pressure for greater consolidation in the sector is likely to increase, suggesting alliances or mergers between other large French groups, such as Promodès and Casino.

This clearly helped explain Auchan's interest in Docks de France. Mr Christopher Dubrulle, its chairman, also pointed out there was relatively little overlap between the two groups, either geographically or in the size and type of the stores they manage.

One clear advantage of the combined group will be increased purchasing power. What is less obvious is how Auchan will recuperate more than FFr11bn it is likely to have to raise from its two bankers to fund the acquisition of a company already regarded as efficiently run.

Some analysts argue that a partial break-up of Docks de France is inevitable, by selling its smaller stores, such as the Atac and Sabeco marques, and integrating others like the Mammouth chain into the Auchan brand-name to achieve marketing economies.

That was clearly a fear of the Docks board, which held discussions with Carrefour, Promodès, Casino and Tesco of the UK about the possibility of an alliance or a "white knight" bid. But the price proved too high and the time too limited.

Even e "poison pill" to dilute the shareholding and create traps for Anchan would probably have only created a delay without providing an alternative strategy. Instead, Docks de France has fallen back on written assurances from Auchan that it will retain its legal and operational autonomy, and on its undertakings to its staff.

The Confederation Générale de Travail union, by contrast, has already warned its members to be "vigilant" in the face of possible job losses.

Meanwhile, eyes are on the privately-controlled and intensely secretive Auchan group, which was forced to unveil its accounts for the first time in public as part of the bidding process. Some believe this could be a first step towards greater openness and even an eventual quotation.

Andrew Jack

Santander's first-half rise beats forecasts

By Tom Burns in Madrid

Banco Santander, Spain's leading and most international banking group, yesterday reported first-half consolidated earnings which were above expectations.

The group lifted attributable net profits by 13.2 per cent to Pta45.9bn ($363m), compared with the first half of last year.

Net interest income rose by 14.2 per cent to Pta191.7bn and operating profit by 43.7 per cent to Pta93.6bn.

The consensus market forecast was for e net interest margin of Pta184.6bn and an operating profit of Pta79bn.

Ms Sheila Garrard, banking analyst at Lehman Brothers in London, said that the results were "favourable and on track for an estimated 12.2 per cent profit rise this year."

Mr Emilio Botin, chairman, said that the increase in earnings per share during 1996 would be "in line with the 13.2 per cent seen in the first half".

The group is lifting its interim dividend by 11.1 per cent to Pta70 per ordinary share.

Santander's net attributable profit fell marginally short of the Pta46.1bn announced last week by Banco Bilbao Vizcaya, its foremost domestic rival, which posted a 26.4 per cent bottom-line increase for the first half. However, Santander'a results reflected the dilutive impact of recent investments on its traditionally prudent profit and loss account.

The Santander group, the biggest financial house in Spain in terms of assets, acquired control of the troubled Banesto in 1994 and it is now on track to return it to sustained profitability.

Santander has begun to increase its industrial asset portfolio, and has bought 3 per cent of Endesa, the dominant and highly profitable electricity producer and distributor.

It has also strengthened its position in Latin America by masterminding a merger in Chile between Banco Osorno and La Union, and purchased a bank network in Puerto Rico.

All of these securities having been sold, this announcement appears as a matter of record only.

Republic of Italy

Global Offering of U.S. $2.1 billion

comprised of

U.S. $1,062,670,000

5% Privatization Exchangeable Notes (PENs℠) due 2001

and

Lit. 1,630,245,000,000

6½% Privatization Exchangeable Notes (PENs℠) due 2001

Exchangeable into Shares or American Depositary Shares of

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Istituto Nazionale delle Assicurazioni S.p.A.

Joint Global Coordinators

Goldman Sachs International **Istituto Mobiliare Italiano**

U.S. $1,062,670,000 PENs

Underwriters

Goldman Sachs International

IMI Bank (Lux) S.A.
Group IMI S.p.A.

Indosuez Capital
J.P. Morgan Securities Ltd.
NatWest Securities Limited

SBC Warburg
A DIVISION OF SWISS BANK CORPORATION

Schroders / Fox-Pitt, Kelton
Morgan Stanley & Co.
International
Salomon Brothers International Limited

U.S. Selling Agents

Goldman, Sachs & Co.
J.P. Morgan & Co.
NatWest Securities Limited

SBC Warburg Inc.

Schroders / Fox-Pitt, Kelton
Morgan Stanley & Co.
Incorporated
Salomon Brothers Inc

Lit. 1,630,245,000,000 PENs

Underwriters

IMI Bank (Lux) S.A.
Group IMI S.p.A.

Goldman Sachs International

Banca Nazionale del Lavoro S.p.A.
Istituto Bancario San Paolo di Torino
SBC Warburg
A DIVISION OF SWISS BANK CORPORATION
ALBERTINI & C. SIM SPA

CARIPLO S.p.A.
Banca Monte dei Paschi di Siena S.p.A.
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Goldman, Sachs & Co.
Banca Monte dei Paschi di Siena S.p.A.
Schroders / Fox-Pitt, Kelton

ALBERTINI & C. SIM SPA

CARIPLO S.p.A.
SBC Warburg Inc.
Société Générale
Securities Corporation

Financial Advisor to the Treasury
Schroders

Valuator for the Treasury
Fox-Pitt, Kelton

July 1996

ITT calls off planned $565m share issue

By Richard Waters in New York

The recent weakness in US share prices yesterday prompted ITT, owner of such landmarks as Caesar's Palace in Las Vegas and Madison Square Garden in New York, to call off a planned share issue through which it had hoped to raise $565m.

The issue is thought to be the biggest yet to have been postponed amid the stock market turmoil.

ITT's shares, which were trading at $55¼ yesterday lunchtime, have fallen by 17 per cent since it announced the share sale nearly a month ago.

The company's decision follows the postponement in recent days of several high-profile, though far smaller, initial public offerings, such as that for Wired, the Internet magazine publisher.

ITT, a hotels, casinos and entertainment company, already has a stock market listing, being one of three companies to emerge after the break-up of the conglomerate of the same name last December.

Late on Tuesday, Trans World Airlines abandoned plans to issue 7m new shares, a decision it said was intended to give the airline's managers more time to deal with the aftermath of the crash of Flight 800. TWA's shares had fallen to $9⅞ by yesterday lunchtime, nearly 20 per cent below where they were before last week's crash.

The delays in part reflect the slowdown of cash flowing into the stock market as share prices have slipped. Companies raised about $15bn through IPOs during June, about the same amount that US mutual funds raised in new cash during the month, said Mr David Shulman, US equity strategist at Salomon Brothers. Mutual fund cashflow has since dried up. "Large, quality companies will probably still be able to raise money," Mr Shulman said. "But they'll have to accept a lower price."

That is a penalty that ITT said yesterday it was unwilling to suffer. The company had wanted to increase its financial flexibility to support future expansion, but "the cost of that flexibility is now too high", said Ms Ann Reese, chief financial officer.

Instead, ITT said it would decide in the early autumn about how to raise new money, and may resort to selling assets.

"We don't see ourselves issuing equity in a market anywhere close to the one we have right now," Ms Reese said.

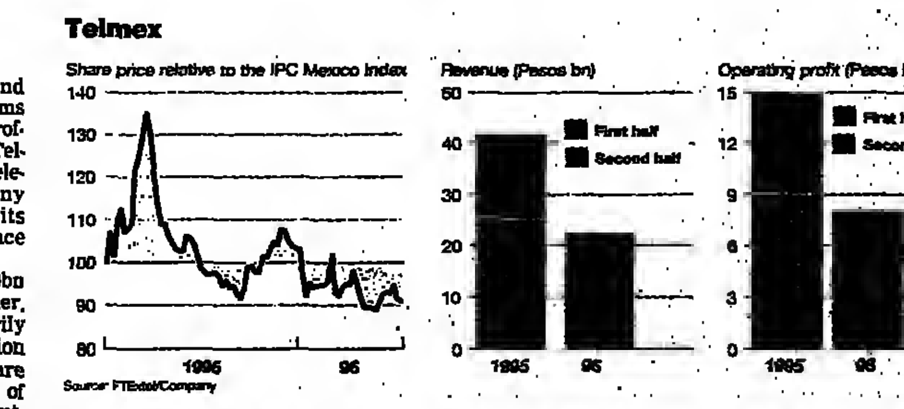
However, Hambrecht & Quist, a San Francisco-based investment bank whose business has grown around handling share issues for others, has reversed last week's decision to postpone its initial public offering, which is now due to be priced in three weeks.

Rivals have suggested that, since H&Q's business relies on the confidence of its customers in its ability to handle share issues in difficult conditions, it had little choice but to go ahead with the offering.

SEC proposal, Page 18

Telmex profits drop 15.7% to 4.09bn pesos

By Daniel Dombey in Mexico City



Source: FT Graphite/Company

High depreciation costs and falling tariffs in real terms held back second-quarter profits at Teléfonos de México (Telmex), Mexico's dominant telecommunications company which is soon to lose its monopoly in long-distance services.

Operating profits were 4.09bn pesos ($538m) for the quarter, down 15.7 per cent primarily because of heavy depreciation costs. Net profits, which are largely discounted because of the effects of inflation accounting, fell 45 per cent compared with the same period a year ago, to 3.29bn pesos.

Second-quarter sales were 11.4bn pesos, a 5 per cent decline on the comparable period. Inflation meant that the company was unable to translate volume increases of about 10 per cent for the more profitable long-distance calls into higher revenue.

"Even with the current economic situation, we experienced good growth with long-distance volume," Mr Adolfo Cerezo, the company's chief financial officer, said. "We've made great progress ... getting ready for competition."

Analysts said that while the start of competition leaves Telmex unable to restore tariffs to the levels before the 1994 devaluation of the peso, declining inflation in the future should ease the pressure. "Rates will be competitive [in the future]," Mr Cerezo said. "They will be below the American level."

Operating costs edged up by 2.4 per cent for the quarter to 7.3bn pesos, although excluding depreciation and amortisation, costs were reduced by 9.9 per cent for the period.

"Telmex has to address costs, especially on the employee side," said Mr Patrick Jurczak, head of Latin American research at Nomura Securities in New York.

However, Telmex remains a formidable generator of cash, with operating earnings before depreciation and amortisation of 6.75bn pesos and a cash flow margin of 60 per cent.

In recent weeks, the company has introduced discount schemes to build customer loyalty. It has also been successful with a pre-paid cellular service. Total cellular clients for the period increased by 43 per cent, though the cellular division suffered a 25m peso operating loss for the second quarter.

Conoco helps Du Pont advance 7% in second term

By Tony Jackson in New York

Strong results from the Conoco oil subsidiary sent Du Pont's second-quarter earnings up 7 per cent to $1.0bn, a record for a quarter. The company said it expected a further improvement in the second half.

In chemicals and specialities, volume was up 4 per cent. However, selling prices were lower, chiefly because of the strength of the dollar, and earnings before non-recurring items were unchanged.

In the narrowly defined chemicals sector, earnings were down 3 per cent at $165m, mainly because of lower results from the white pigment titanium dioxide. Chemicals volume was 5 per cent higher, but prices were down 6 per cent.

In fibres, earnings rose 2 per cent to $308m, with Lycra earnings up and nylon earnings down. Sales prices were 1 per cent lower and volume was flat.

In the polymers sector, earnings were up 7 per cent at $244m, with rises in fluoropolymers and polymers for the car and packaging industries. Volume was 6 per cent higher and prices 1 per cent lower.

Conoco's earnings were 15 per cent higher at $218m, with upstream earnings 41 per cent up due to higher prices worldwide and higher volume outside the US. Downstream earnings were 34 per cent lower.

Total group sales were 7 per cent higher at $11.1bn, and earnings per share were up 5 per cent at $1.84 before non-recurring items. Du Pont's shares rose $3⅞ to $78 in early trading.

● Monsanto, the US chemicals company, said on Tuesday net income in the second quarter rose 26 per cent to $365m on sales up 4 per cent at $2.6bn. The company said this was due to growth in agricultural chemicals and pharmaceuticals.

Operating profits from agricultural products was up 25 per cent at $367m. Sales were strong for Roundup herbicide and for bovine somatotropin, the controversial drug used to increase milk yields. Monsanto said it would expand its Roundup manufacturing capacity worldwide.

Profits from the Searle pharmaceutical subsidiary were up 20 per cent at $35m. However, chemicals profits were down 14 per cent at $77m, on sales unchanged after adjusting for disposals. Specialty products were strong worldwide, but other products suffered from price weakness.

Kimberly-Clark survives price war with earnings up 19%

By Tony Jackson

Kimberly-Clark, the tissue manufacturer, emerged from its price wars with Procter & Gamble with earnings 19 per cent higher at $365m in the second quarter. Adjusted for non-operating items such as asset sales, earnings per share rose 15 per cent to $1.14.

In North America, tissue volume was 6 per cent lower. The company said sales trends were now improving, and claimed to have gained market share in toilet tissue and paper towels during the quarter.

Offsetting the fall in tissues, sales of other personal care products were up 8 per cent by volume worldwide. Total group operating profit was 12 per cent higher at $488m, helped by lower pulp prices. Sales were 5 per cent higher at $3.35bn adjusted for disposals.

Mr Wayne Sanders, chairman, said the merger with Scott Paper was making excellent progress, and would realise savings of at least $250m this year and $500m by 1998. Partly as a result, cash flow would be $200m to $300m higher than expected in the second half of the year.

Mr Sanders said that would be spent on share repurchases and debt reduction. In the first half, debt was cut by $350m and 3.1m shares were repurchased.

Kimberly's share of net earnings in equity companies was down 22 per cent at $38m. This included an accounting charge for the fall in asset values in Mexico due to the weakness of the peso, compared with a gain the previous year. Excluding that, the share of earnings was down 4 per cent as a result of the depressed state of the Mexican economy.

Income was helped by a pretax gain of $70m on the disposal of the Scott face tissue and baby wipes business, as required by the US competition authorities, and by the sale of Kimberly's remaining interest in Midwest Express Airlines.

Kimberly's shares fell $¾ to $75⅞ in early trading.

Loan growth behind Metrobank advance

By Edward Luce in Manila

Steep loan growth boosted net profits by 50 per cent to 2.03bn pesos (US$77m) at Metropolitan Bank, the Philippines' largest bank, in the first six months of 1996.

Falling interest rates and the country's rapidly expanding market for consumer lending helped lift Metrobank's loan portfolio, which grew by more than 50 per cent from January to June.

The bank did not give a detailed breakdown of the results, but analysts said that its loan growth was the highest in the Philippines.

Metrobank's shares, trading at a p/e of 21, closed 40 pesos lower yesterday at 580 pesos. The sharp fall was in line with the market's overall decline over the last few days, reflecting worries about the end of the equity bull run in the US, analysts said.

"All the signs are that Metrobank is on target for its year-end forecast of 4.7bn pesos in profits [40 per cent up on 1995]," said Mr Rico Gonzales, a researcher at Asian Equity Securities in Manila. "Metrobank can probably sustain this growth for longer than most of its competitors because it has such a large capital base."

With deposits growth of only 15 per cent and a loan-to-deposits ratio of 101 per cent, Metrobank is funding its lending drive with proceeds from its growing capital base. At 26bn pesos, Metrobank has the largest net worth in the banking sector. However, the bank's rapid branch expansion plan, which will add 30 new outlets to the existing 800 branches by December, is expected to boost deposits.

Metrobank's biggest rival, the recently privatised Philippine National Bank, boosted non-recurring net profits by 43 per cent in the first half to 793m pesos, it said yesterday. After stripping out a 480m peso gain from the sale of a property in Manila last year, PNB's results were in line with the overall buoyancy of the sector. Its shares closed 13.5 pesos down yesterday at 417.5 pesos, in line with a 3 per cent drop in the Philippines Stock Exchange.

Most of PNB's improved earnings came from non-interest income, including underwriting, arranging syndicated loans and fees. The sale of its former headquarters in Makati, Manila's business district, for 3.8bn pesos last week is expected to give PNB an added advantage in the battle for a share of the expanding loan market.

The bank is attempting to enter the consumer finance sector after being freed from state ownership.

NEWS DIGEST

Unisys tumbles into the red

Unisys, the US maker of mainframe computers which is undergoing a restructuring, yesterday reported second-quarter losses of 14 cents a share and warned that delays in the introduction of new models could depress full-year results. The deficit, compared with a profit of 6 cents a share a year earlier, matched expectations, but the admission of delays suggested reorganisation was proving more difficult than expected.

Although business was said to have improved in the last month of the first quarter, progress in the following months was hampered by delayed deliveries of new high-end servers for business customers.

Net income for the period was $5.2m against $40m a year earlier. This translated into a per share deficit after payment of dividends to preferred shareholders. Revenues for the quarter were flat at $1.51bn. *Christopher Parkes, Los Angeles*

USAir posts operating record

USAir continued the healthy run of US airline results yesterday by announcing net second quarter income of $200.8m, compared with $112.9m last time. The airline, in which British Airways has a 24.6 per cent stake, said operating revenues of $2.15bn, up from $1.98bn in the same period last year, were the highest recorded in any quarter. Load factor, or aircraft occupancy, for the quarter was 71.1 per cent. USAir said this was also the highest in its history and 4.1 percentage points up on the second quarter last year.

It said net income for the quarter included a $41.2m provision to cover the company's employee profit-sharing arrangements. Without these, net income would have been $242m. The airline said the second quarter performance was the result of "beneficial economic and industry conditions and the efforts of employees". Mr Stephen Wolf, chairman, warned, however, that the airline still needed to cut costs. Net income per share was $2.71, compared with $1.47 last time. *Michael Skapinker, Aerospace Correspondent*

Phillips doubles income

A three-fold surge in operating profits from motor fuel and a 33 per cent rise in US natural gas prices pushed net income at Phillips Petroleum 96 per cent higher to $221m in the second quarter. Earnings per share doubled to 84 cents, the company said yesterday. The benefits of controversial petrol price increases in the period, which prompted the federal government to release crude oil reserves to improve feedstock supplies, have now shown through in substantial earnings increases at most of the US oil majors.

Phillips' petrol profits in the US market increased almost 150 per cent, the company reported, while income from foreign refining and marketing rose only 31 per cent to $42m. Revenues in the quarter to the end of June rose less than 10 per cent to $3.94bn. Net income for the first half, also released yesterday, showed net income up from $224m to $916m and earnings per share for the period up more than four times to $3.49, compared with 85 cents in the first six months of 1995. *Christopher Parkes*

Cyprus Amax slides

A sharp decline in molybdenum profits and last month's drop in copper prices trimmed Cyprus Amax Minerals' second-quarter income to $53m, or 52 cents per fully diluted share, down 61 per cent from $134m, or $1.31, in last year's second quarter. Sales for the quarter were $740m, compared with $875m last year. Cyprus Amax, based in Denver, is the world's largest producer of molybdenum, which is used in metals fabrication, and has extensive coal mining, copper and gold production interests. The company said second-quarter prices for molybdenum averaged $5.12 a pound, compared with $9.55 in the 1995 second quarter.

Copper price realisations dropped 24 cents a pound, to an average of $1.09 a pound. The group's copper/molybdenum operations earned $71m in the quarter, down 58 per cent from $169m earned in the same 1995 period. Cyprus Amax's coal sector also lagged behind during the quarter, with profits dropping to $21m, from $38m in the second quarter of 1995.

For the first half, Cyprus Amax earned $115m, or $1.13 a share, on sales of $1.4bn, down from $231m, or $2.27, on sales of $1.7bn in the first six months of 1995. *Laurie Morse, Chicago*

Setback for Placer Pacific

Placer Pacific, the Australian-based goldminer which is controlled by Canada's Placer Dome, yesterday reported an after-tax profit of A$18.5m ($14.63m) in the six monthe to end-June, down from A$29.3m in the same period a year ago.

It said sales revenue increased by 30 per cent, to A$296.1m, but that profit was hit by the lower margins on copper sales and the higher costs of gold production. Its equity share of gold production for the quarter was 192,788 ounces, up from 172,919 ounces previously.

Exploration costs were virtually unchanged at A$11m, but depreciation charges rose from A$32.5m to A$58.5m. Placer said this reflected charges related to the Osborne mine and the 73 per cent production increase at the Granny Smith operations. The group said that gold production should improve in the second half because of increased production at the Porgera mine in Papua New Guinea and at the Kidston mine in Queensland. *Nikki Tait, Sydney*

Moore advances 6%

Proceeds from the sale of an investment helped Moore Corporation, the Toronto-based provider of information handling services, lift second-quarter earnings by 9 per cent, in spite of a 6 per cent drop in sales. Net earnings edged up to US$36.5m, or 36 cents a share, from $33.5m, or 34 cents, a year earlier. Operating income was virtually unchanged at just under $29m.

The drop in sales, to $593.5m, was due to an 8 per cent decline in forms and print management business. However, Mr Reto Braun, chief executive, said a record number of new outsourcing print management contracts was received in the second quarter.

Moore has yet to resolve a hostile $1.4bn takeover bid launched a year ago for Wallace Computer Services of Chicago. It failed to gain enough votes to overturn Wallace's poison pill, but won enough support to name three directors to Wallace's board. *Bernard Simon, Toronto*

A radical reformer to the last

Outgoing head of the Philippine Stock Exchange won over critics

When Mr Eduardo de los Angeles became president of the Philippine Stock Exchange in September 1993, he was greeted with a flood of hostile letters. Brokers opposed to Mr de los Angeles' sweeping modernisation plans took to penning him abusive notes which he dubbed "love letters".

Three years, 10 de-listings and 36 initial public offerings later, Mr de los Angeles is leaving the post on September 1 to rejoin his private law practice. The PSE's most radical reformer says most brokers have now accepted the need for changes such as stricter disclosure and tougher surveillance.

His successor – who, according to market speculation, is likely to be Mr Romeo Bernardo, the country's former under-secretary of finance – will nevertheless have to fight to push some of the remaining reforms through, he says.

"There are always vested interests opposed to change," Mr de los Angeles says. "I might not be getting love letters any more but there are still plenty of reforms left in the pipeline. Many have come round to accepting that modernisation is inevitable. But some have not."

For example, last May the PSE's 15-member board of directors postponed a reform to accept non-brokers on to the board. The Asian Development Bank has meanwhile refused to disburse the first tranche of a $150m loan to develop Manila's capital markets unless the PSE scraps its controversial IPO allocation system.

Rights issues and IPOs – like seats on the PSE board – continue to be allotted almost exclusively through brokers. Suspicions that brokers trade the best shares on their own account is not confined to the ADB. "Brokers are a self-interested breed so it's not healthy that they should access to the bulk of new shares," one foreign broker says.

The IPO of Uniwide, a retail and wholesale property group, which closes in September, is the first Philippine listing to conform to new rules requiring 10 per cent of shares to be distributed to small investors. Mr de los Angeles says the long-term goal is to raise the small investors' portion to 30 or 40 per cent.

Other reforms, such as the introduction of a central depository system, which will lead to paperless trading, and the creation of a central clearing corporation have been delayed owing to disagreements over rules and regulations. The PSE is confident that – as long as the Philippine Securities and Exchange Commission permits – both systems will be up and running before December.

Recent history shows that the SEC does not always see eye-to-eye with its counterparts on the PSE. Earlier this year the PSE debarred a local company, Puerto Azul Land (Pali), from listing on the exchange. The PSE said that Pali had breached its rules by failing to disclose that a large parcel of the real estate included in its IPO was under legal dispute. The SEC swiftly overruled the PSE's decision, prompting Mr de los Angeles to reiterate the PSE's original disqualification. The case is now with the supreme court.

"These very public turf battles between the SEC and the PSE have highlighted the need to clarify the division of regulatory powers," says Mr Roman Azanza, chairman of the Philippines Capital Markets Development Council and director of Crosby Securities in Manila. "If it is to become a self-regulatory organisatioo the PSE must have the right to decide which companies can and cannot list."


De los Angeles: successor will have to fight to complete reforms

As long as the board of the PSE is dominated by brokers, however, few can trust it to become self-regulatory. Having presided over quicker development than any of his predecessors – including the doubling of the market's capitalisation to about 2,000bn pesos and the rise in the cost of a seat on the PSE from 5m to 85m pesos – Mr de los Angeles recognises the need for urgency if the PSE is to remain competitive.

"Ultimately, the best spur to change is to appeal to brokers' self-interest," he says. "We cannot compete for foreign money unless we run a professional exchange."

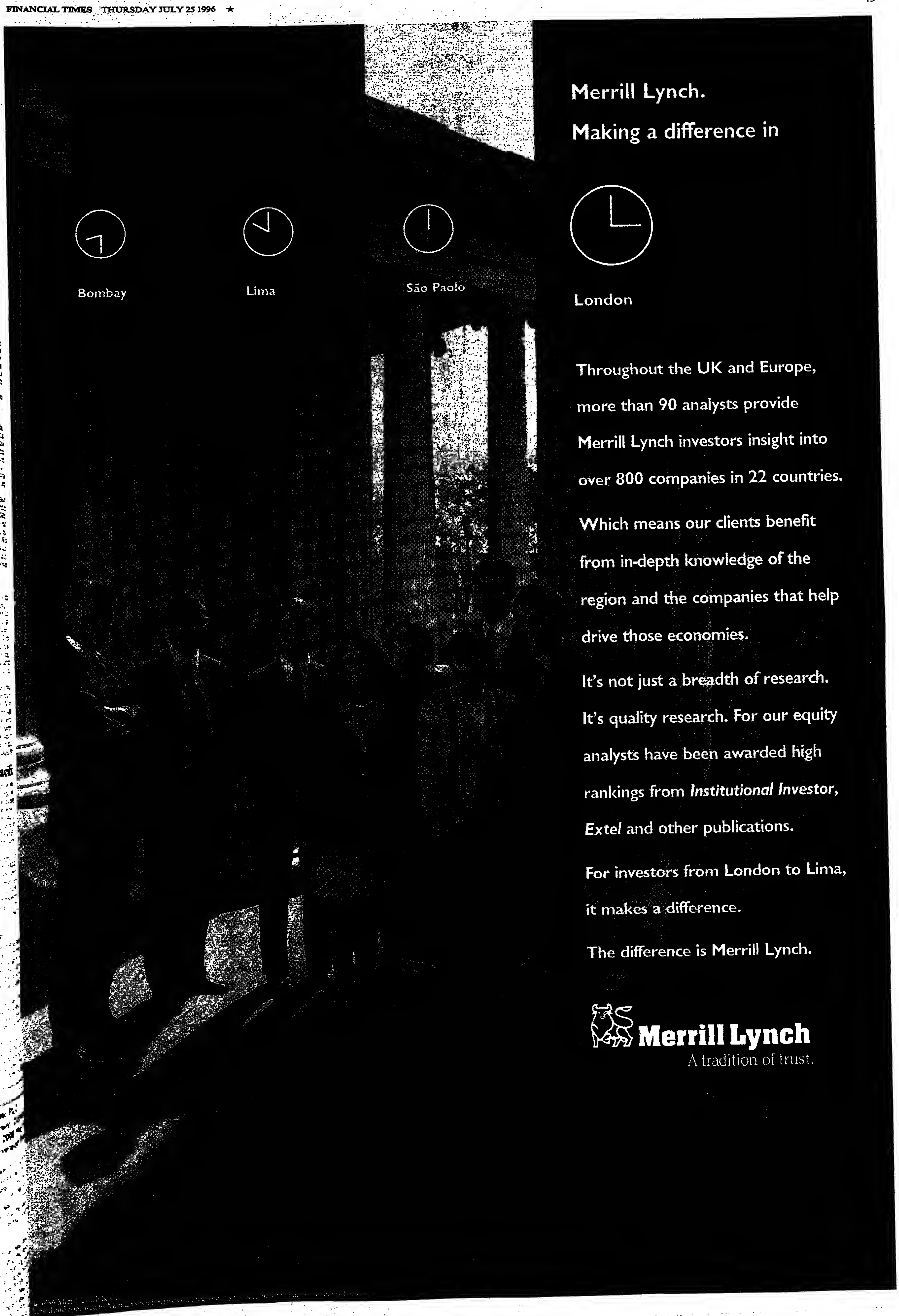
Less controversial changes include the introduction of a professional brokers' training course, modelled on New York's Series 7 exam, the unification of Manila's two exchanges and the introduction of software to spot irregular share price movements. These have already been implemented or are well in hand.

At the moment shares can be suspended if they rise by more than 50 per cent in a session. Mr de los Angeles says this will eventually be reduced to more like 20 per cent. The outgoing chairman would also like to see derivatives and bonds listed on the PSE.

Most brokers have changed their opinion of Mr de los Angeles. "Everyone recognises that he has accomplished a great deal during his tenure," says Ms Meg Francisco, chief researcher at Deutsche Morgan Grenfell. "But I think he recognises that it will be harder to actually implement the new rules [on disclosure] than it was to put them into place."

Edward Luce

مكتب الأصل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Suter ready to agree £271m takeover deal

By Patrick Harverson

Suter, the industrial conglomerate, is expected today to agree to a £271m ($423m) takeover in a deal that will bring to an end the 15-year stewardship of Mr David Abell, its controversial chairman.

The buyer is Ascot Holdings, a company which has also been involved in controversy in recent years. It was formerly known as Control Securities, a property group run by Mr Nazmu Virani, who was jailed in 1994 for his role in the collapse of BCCI, the Middle East bank.

The deal will see Ascot offer Suter shareholders a combination of cash and new equity worth 230p a share. It will complete Ascot's transformation from a leisure and property group into an industrial holding company.

Mr Abell shot to prominence in the 1970s as a 29-year old treasurer at British Leyland. He built up Suter into a diversified industrial conglomerate during the 1980s and later earned a reputation as an active share dealer, acquiring stakes in a wide variety of companies for Suter.

His activities sparked a Department of Trade and Industry investigation into the share dealings. Although ultimately no action was taken against him, Mr Abell's share purchases were strongly criticised by the DTI in the 1993 report that concluded a 4½ year inquiry.

The investigation cast a shadow over both Mr Abell and Suter, whose shares have underperformed the stock market in recent years. Yesterday Suter shares jumped 27p to 197p. Ascot fell 8p to 361p.

The purchase of Suter will also mark a watershed for Ascot, which underwent a financial restructuring two years ago under new management led by Mr Howard Dyer, its chairman and a former Williams Holdings executive.

It sold most of its hotels and pubs businesses for more than £300m, and this year announced its intention to make a big industrial acquisition after announcing operating profits of £13.3m for 1995.

Analysts said Ascot was probably attracted to Suter because its shares were lowly-valued by the stock market due to the controversy surrounding Mr Abell's past share dealings. "The shares have been trading at a huge discount to the market because of Mr Abell," said one analyst.

Suter's pre-tax profits fell 14 per cent to £20.2m last year, but profits were forecast to recover to £29m this year in the wake of the management's decision to focus its attention on the three solidly performing businesses of refrigeration, chemicals and specialist engineering.

When the takeover of Suter is completed the 53-year old Mr Abell will stay on for a short while before stepping down from the company. He will earn almost £8m from the sale of his 3 per cent stake.

Costain's plans to refinance receive setback

By Andrew Taylor and Ross Tieman

Costain's refinancing plans have received a setback after Lonrho, the UK conglomerate, withdrew from the purchase of the troubled construction group's remaining US coal operations.

Lonrho is understood to have told Costain of its decision on Monday – just hours after Costain shareholders had approved a £73.6m ($114.8m) rescue share issue at an extraordinary meeting.

Costain yesterday said the issue, due to close on Saturday, would proceed and was not conditional on the disposal of the coal operations. Lonrho is understood to have offered more than £40m for the business.

Costain declined to reveal the identity of the potential bidder, but said it was "surprised and disappointed that a buyer should pull out at such a late stage".

The withdrawal comes as Lonrho is planning to break up its operations into three separately quoted businesses: hotels, African trading interests and the core mining side.

Lonrho has suffered negative cash flow in recent years, due partly to large borrowings, which has constrained its ability to fund acquisitions.

The mining business which includes Duiker, a South African coal producer, alongside mainstream gold and platinum interests is expected to be left with surplus cash following separate flotations of the African and hotels businesses.

Costain said the proposed purchaser of its coal business had informed it that "in the context of its own business objectives, it has decided not to proceed." This was after the bidder had finalised a sale agreement, having agreed in principle to buy the business on July 12.

Costain said it remained committed to selling its coal operations. Some half a dozen companies are understood to have expressed interest in buying the operation before Lonrho was chosen as the preferred bidder.

Virtuality profit delayed

By Paul Taylor

Shares in Virtuality fell sharply yesterday after the UK-based virtual reality pioneer warned that a product shipment hold-up had delayed its move into profitability.

The shares, which peaked at 307p earlier this year after the company licensed its consumer head-mounted display technology to one of Japan's leading toy manufacturers, closed 58p down at 177p.

The statement reiterated the warning made at the annual meeting in May that the results for the first six months of the year would "fall behind the outcome for the same period last year."

However, the group added that revenue growth for the full year "will be similar to last year, and earnings are unlikely to be significantly different."

Last year sales grew 40 per cent to £12.8m ($20m), while there was a £565,000 pre-tax loss and per share of 2.1p.

Hoare Govett, the house broker, downgraded its full-year forecast from pre-tax profits of £1.4m to a loss of about £500,000 on turnover of about £18m.

Virtuality said several factors had delayed its move into profitability. In the entertainment business a softening in demand had been exacerbated by delays in the roll out of its high performance Total Recoil arcade system until the third quarter.

The company blamed "software compatibility issues" for the delay in shipments which had been expected to start in the second quarter, but which only got under way this month.

Separately the company said shipments of its Elysium virtual reality development systems had been put back to ensure compatibility with Microsoft's emerging DirectX software standard.

Escom UK stops trading

By Christopher Brown-Humes

Escom UK, Britain's biggest high street computer retailer, stopped trading yesterday after receivers Deloitte & Touche failed to find a buyer for the chain.

It means the closure of 113 stores and takes total job losses at the chain to 850 since it was put into receivership on July 12. Escom UK's German parent, Escom AG, was put into bankruptcy proceedings early last week.

Deloitte & Touche said it was closing Escom UK because there was "no serious interest" in buying it as a going-concern, disappointing trading, and the high costs of continuing business.

Mr Nick Dargan, receiver, said it was "disappointing that the business as a whole cannot be sold but given the oversupply in the retail computer market and rapidly declining margins in the sector, it was always a possibility". Poor store locations also deterred potential buyers.

He now intends to sell off Escom's stocks and individual stores to maximise recoveries from the company's assets.

Many of Escom's stores were formerly Rumbelows outlets, taken over from Thorn EMI in March 1995. Thorn said earlier this week it may have to make a provision of up to £30m ($46.8m) if it becomes liable for the leases on the Rumbelows shops.

Lydia van der Meer

Peter Job: working towards a solution for all shareholders

Glaxo faces US patent suit over Aids drug

By Daniel Green

Emory University of Atlanta, US, has filed a patent suit against Glaxo Wellcome, the UK's largest pharmaceuticals company, and its Canadian partner, Biochem Pharma, over the Aids drug Epivir.

Epivir, also known as 3TC, is an important component of a new generation of Aids treatments.

Emory University claims it has a patent that covers Epivir and is seeking damages for the sale and distribution of Epivir. It is not trying to stop sales of the drug.

Glaxo said it believed the US patent granted to Emory University was invalid. "We will be defending our position vigorously," it said.

Stagecoach set to expand via Swedish purchase

By Geoff Dyer in London and Greg McIvor in Stockholm

Stagecoach, the transport group, has been chosen as the preferred bidder for Swebus, the largest bus operator in the Nordic region.

If the deal goes through, it would be the first significant takeover in continental Europe by one of the quoted UK bus companies which have grown rapidly in recent years through acquisitions.

The sale is thought likely to raise in excess of SKr1bn (£98m), although both Stagecoach and SJ, the Swedish state railway network which owns Swebus, refused to comment on the price.

Mr Brian Souter, chairman of Stagecoach, said that the deal would give the group "a strong position to exploit other opportunities in Europe."

Stagecoach's experience in the deregulated UK market would complement Swebus' knowledge of franchised bus networks which are more common in continental Europe, he said. Stagecoach already has a small operation in Portugal, as well as businesses in Africa and New Zealand.

Faced by a shrinking pool of acquisition targets in the UK, several of the quoted bus groups have been examining investment prospects on the continent. EU legislation obliges countries to put public services out to tender by 1998.

SJ received tenders for Swebus from six companies in Sweden, France and the UK.

Reuters on target for return of cash

By Geoff Dyer

Reuters Holdings, the financial information and news group, said yesterday that it was still on target to return part of its £866m ($1.35bn) cash pile to shareholders by the end of the year.

However the group refused to give details of either the size or form of the distribution, which Reuters has been examining since the beginning of the year.

Mr Peter Job, chief executive, said: "We are working to produce a solution for our shareholders that works for all of them."

Analysts, who are forecasting that the group will return about £500m, suggested his comments implied that a special dividend is the most likely option, as share buy-backs tend to favour institutional shareholders over private investors.

The comments came as Reuters disclosed a 19 per cent increase in interim pre-tax profits to £342m (£288m) due to strong demand for its transaction products.

However although the figures were at the top end of analysts' forecasts, the shares fell 25p to 703p due to a weak market, the lack of news about returning cash and some worries about slowing revenue growth.

Revenues rose 11 per cent in the six months to June 30 to £1.44bn (£1.29bn), however excluding currency movements, the increase was only 8 per cent. The group warned last year that it might not be able to sustain double-digit revenue growth due to bank mergers.

The rise in profits, however, came despite a 16 per cent increase in capital expenditure to £143m and a 36 per cent rise in depreciation to £161m.

Transaction products was the fastest growing area, increasing revenue by 28 per cent to £405m, with Instinet, the equity trading system, raising revenues by 51 per cent.

Lloyds Abbey Life advances to £259m

By Motoko Rich

Consolidation in the UK life assurance industry is set to continue, according to Mr Stephen Maran, chief executive of Lloyds Abbey Life, the life insurer majority-owned by Lloyds TSB.

Mr Maran said LAL was "watching the scene to see if there is anything we could take advantage of".

However, the group was not in formal discussions with a target, and he said: "I think there is a danger that prices are going to become overheated." He refused to be drawn on the issue of LAL's future relationship with Lloyds TSB, which is yet to be resolved.

His comments came as the company reported a 28 per cent rise in pre-tax profits to £259.2m ($404.3m). The shares rose 9p to 536p.

LAL continued the trend of strong new business figures in the life sector as it reported annualised sales of life, pensions and unit trusts up 29 per cent to £106.5m in the six months to June 30.

In Black Horse Financial Services, a "bancassurance" company selling only to Lloyds Bank customers, sales of regular premium life and pensions products eased 2 per cent to £27.3m, while single premium life, annuity and pensions dropped 22 per cent to £109.3m. However, sales of unit trusts offset these falls, with regular payments jumping 77 per cent to £8.3m and single payments surging 155 per cent to £23.2m.

Abbey Life raised sales of regular premium products by 8 per cent while sales of single premium products jumped 71 per cent. Sales of regular payment unit trusts increased more than four-fold to £1.8m while single payments jumped 89 per cent to £78.8m.

Black Horse led profits growth with a 37 per cent rise to £70.8m while Abbey Life raised pre-tax profits 22 per cent to £81.2m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied Textile	6 mths to Mar 31	106.8	(99.3)	6.4	(8.11)	6.1	(7.6)	2.6	Sept 30	2.5	-	7.3
Birkby	Yr to Mar 31	56.2	(62.3)	8.44♥	(10.9♥)	13.8†	(20.3)	5.8	Oct 25	5.4	8	7.4
Bullough	6 mths to Apr 30	168.1	(161.5)	4.29♥	(8.3)	2.05	(4.44)	1.17	Sept 12	1.75	-	6.05
Eurodis Electron	Yr to May 31	298	(123.5)	18♥	(5.86)	28.39†	(14.36)	3	Oct 31	2.6	4.85	4.15
Lloyds Abbey Life	6 mths to June 30 ★	1,451	(1,253)	259.2	(201.8)	24.7	(19)	8.2	Oct 4	7.3	-	21.5
Masthead Insurance	6 mths to June 30	-	(-)	1.16	(1.07)	1.82	(1.69)	1.7	Aug 30	1.8	-	3.2
Meuvier-Swain	Yr to Apr 30	100.1	(85.1)	9.58♠	(11.1♠)	11.6	(15.3)	3.9	Oct 2	3.5	5.75	5.1
Mosaic Invs	Yr to Apr 30	4.77	(16.62)	2.19L♠	(7.18L♠)	7.57L	(23.77L)	nil	-	nil	0.5	1
Reuters	6 mths to June 30	1,438	(1,295)	342	(288)	14.6	(12.3)	2.75	Sept 9	2.3	-	9.8
Rubicon	Yr to May 31	177.4	(56.8)	10.9♠	(3.68♥)	13.3†	(11.1)	3.8	Oct 31	3.3	6	5.3
Spargo Consulting	6 mths to June 30	4.04	(3.33)	0.802	(0.192♠)	3.1	(0.91)	2	Sept 16	1.75	-	4
Vibroplant	Yr to Mar 31	64.4	(67.7)	2.38♠	(9.43♠)	4.67L	(11.37)	2.65	Oct 1	2.65	4.05	4

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Beta Global	6 mths to June 30	-	(-)	0.433	(0.264L)	0.8	(0.4L)	-	-	-	-	-
Continental Assets	6 mths to June 30	253.1	(237.8)	0.453	(0.481)	1.99†	(2.24)	-	-	-	-	3
Murray Intl	6 mths to June 30 ★	408.6	(354.4)	9.51	(8.99)	8.01	(7.59)	6	⚹	8.7	-	12.6
Updown	6 mths to June 30 ★	855.1	(706.03)	0.341	(0.402)	8.53	(10.05)	-	-	-	-	15

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ★ Comparatives restated. ⚹In three instalments of 3p, payable August 28, November 25 and February 21

TECHNOLOGY

Chips' shining light

Researchers in the US have shown that a technology called extreme ultraviolet light (EUV) lithography may illuminate the path to the next generation of semiconductor chips.

Chips manufactured with the technology are likely to be 10 times faster than today's chips, and be able to store 1,000 times more information, researchers say.

Violet light has a short wavelength of 0.4 microns (a micron is a millionth of a meter), which means it can be focused to narrower strips than can longer wavelength light. The use of EUV light, therefore, allows the focusing of extremely narrow strips of light which "paint" the pathways for electrons on semiconductor materials.

Narrower strips of light equal smaller pathways. Smaller pathways equal smaller semiconductor architectures. Smaller architectures equal faster chips and more memory in the same chip area.

"We've built the bridges to show that the use of EUV lithography is feasible, and may be commercialised early in the next century," says Don Kania, deputy leader of the advanced microtechnology programme at the Lawrence Livermore National Laboratory near San Francisco.

"We have identified and addressed two technical challenges that were potential showstoppers for EUV," says Andrew Hawryluk, a Lawrence Livermore project researcher.

In the first advance, a new "ion beam sputter deposition system" results in a 300,000-fold reduction, compared with current methods, in the number of defects produced within a semiconductor layer as it is deposited on the silicon chip surface. However, that defect rate must be driven lower still.

The second advance is a better tool for measuring the accuracy of optical surfaces. This makes it possible to build the optical systems necessary for EUV lithography.

Tom Mead

Inadequate testing led to the software breakdown that doomed Ariane 5, writes **Bruce Dorminey**

Flying blind

Press Association

Ariane's navigational guidance mechanism broke down soon after launch

Launch site weather was fine, spirits were high and observers at the European Space Agency's Paris headquarters had settled in to watch a closed-circuit version of what they assumed would be the triumphant maiden voyage of Ariane 5 – the culmination of 20 years of European aerospace technology neatly packaged into the showcase 740-tonne rocket.

Yet on the morning of June 4, 37 seconds after engine ignition at ESA's French Guiana launch control centre, something went terribly wrong. According to Jean-Marie Luton, the agency's director general: "I could only see this ball of fire."

Luton was speaking after Tuesday's Paris press conference announcing an independent board of inquiry's findings on the accident. With its two solid propellant boosters and cryogenic mainstage, Ariane 501 was set to bring the ESA's launch capacity in line with Nasa's powerful Saturn 5 series. But at 3,700 metres altitude, the launcher suffered a total breakdown of both its primary and back-up inertial reference systems (or navigational guidance mechanism).

As a result, the launcher tilted to such an extent that the whole structure broke apart, activating an onboard detonation scenario. Also destroyed was a 4.8-tonne science payload, ESA's $500m (£320m) Cluster mission, consisting of four long-range earth satellites that would have been part of an international effort to study the sun's interaction at the edge of the earth's magnetic field.

Ten days after the accident, Luton and CNES (French Space Agency) chairman Alain Bensoussan set up a nine-member independent board of inquiry to carry out an investigation.

Their findings state: "It is evident that the limitations of the Inertial Reference System (SRI) software were not fully analysed in the reviews, and it was not realised that the test coverage was inadequate to expose such limitations."

SRI calculates the angles of velocities for the rocket's flight path with the help of its onboard software. When that software fails, the inertial reference system has nothing to calculate. The back-up inertial system failed for the same reason. "SRI is like the autopilot on an aircraft," says Lennart Lubeck, vice-chairman of the board of inquiry and a member of the Swedish Space Corporation.

"It senses the motion of the launcher and puts the launcher in the right trajectory and finally the right orbit. It was trying to correct for an attitude deviation that didn't exist. First you go blind in one eye and then in the other. Then it just went haywire," he adds.

The inertial system deflected the nozzles of the booster rockets to angles of more than 20 degrees, causing the whole launcher to veer badly off course. In theory, if the onboard software fed the inertial systems the correct data, even if the first inertial system failed, the back-up would take over. But that is an impossibility when the software on which it depends has failed from the beginning.

Ariane 5's flight trajectory takes an earlier and higher horizontal velocity, five times that of Ariane 4, which the software was supposed to accommodate. It did not. An internal variable related to the horizontal velocity exceeded a limit inherent in the SRI software, so it responded in the way that any software does when not functioning properly – it registered an error.

"Any airplane has an inertial platform system," says inquiry member Wolfgang Kubbak, professor of aeronautics at Germany's Technical University of Darmstadt.

"Before take-off the aircraft is aligned and then switched to navigation. As a specific feature of the Ariane 4, it was necessary to maintain the alignment function after one has switched over to navigation so they ran two parallel processes. After lift-off this alignment function is not needed, but since Ariane 5 accelerates much faster and starts turning into its trajectory earlier than Ariane 4, it overran its maximum value. It was a design problem they overlooked."

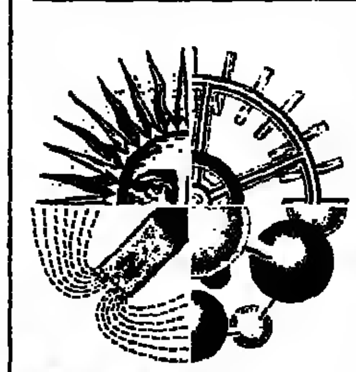
Why didn't preliminary testing discover such flaws? The answer is that to test the software in a so-called "black-box" environment, where the software would behave as in a real flight, would require a real flight. The only other alternative is to simulate acceleration signals and angular movements under normal flight parameters. That hasn't happened, in part, because the SRI was not specified with the Ariane 5's planned flight trajectory in mind.

Apart from public relations representatives, executives from Sextant, which made the SRI, Matra Marconi Space, which made the software that runs the SRI and related guidance systems, and Aerospatiale, which was the industrial architect of the project, were all absent from the press conference. "I can identify seven chains of events which all contributed to the failure and at each there were teams of people making decisions," Lubeck said in their defence. "But it was inadequate foresight and an omission of logic. To fix the problem that caused the failure can be done in a matter of weeks. To make sure there are no other omissions takes months."

The best insurance in preventing a replay is in implementing the investigative committee's 14 recommendations for the Ariane 5 programme. They include individual testing for each piece of onboard software, better realistic simulations, an external team to evaluate and qualify software and, finally, communication of a more "transparent" nature, including clearer authority and responsibility among the design teams.

Of the 14 recommendations, Luton believes the most difficult to implement will be the last, for communication in such multi-faceted endeavours is an inherent Achilles' heel. But after an estimated additional $800m (on top of Ariane 5's $8bn development tab) for solving the glitches and Ariane 5's Spring 97 re-launch, the director general is counting on a resurgence in both ESA's credibility and access to space.

Worth Watching · Vanessa Houlder



New pros of anti-matter

Most people think of anti-matter in terms of the fuel for intergalactic travel in science fiction. But anti-matter has more down-to-earth applications, most notably in the Pet scanners that map brain activity.

AEA Technology, the state-owned science and services business that is due to be privatised, has harnessed anti-matter in a portable detector that provides an early warning of faults in metallic components.

The device measures the radiation given off when positrons – positively charged anti-electrons – are annihilated by coming in contact with electrons. The spectrum of the radiation differs slightly if the annihilation occurs near faults in the lattice of the metal. That provides a clue about the early stages of damage to the metal, which the device, known as Positron Annihilation Lineshape Analysis, analyses and displays on a PC screen.

AEA Technology: UK, tel (0)1235 464080; fax (0)1235 463799.

Setting a trap for cockroaches

The techniques used by the carnivorous pitcher plant to lure and trap insects have been adapted in the design of an environmentally friendly cockroach trap.

Cockroaches are enticed into the trap by an alluring scent. Once inside, they find themselves walking on a sloping surface coated with a slippery electrostatically charged powder. As they lose their grip, they slip on to a sticky surface below, where they are trapped.

The trap was designed by a biologist at the University of Southampton, which has licensed the design to Jeunique International, a company based in Los Angeles. The company expects to launch the traps in the autumn in California, where cockroach infestations are a common problem.

University of Southampton: UK, tel (0)1703 592114; fax (0)1703 593285.

Better look at DNA

Researchers will be able to visualise how certain drugs bind to individual DNA molecules, using a technique developed by the Georgia Institute of Technology in Atlanta.

The approach is particularly relevant to the design of anti-cancer and anti-viral drugs that work by altering DNA at the molecular level.

The technique produces images of DNA fragments – before and after the drug has binded – using a scanning force microscope, which detects forces acting on the tip of a tiny probe that moves across a surface.

The Georgia Tech scientists believe their technique is better than existing techniques because it is faster and the results are relatively simple to interpret.

Georgia Institute of Technology: US, tel 4048943444; fax 4048946983.

Tactile forceps in operating theatre

Minimally invasive surgery has offered huge benefits to patients who suffer from less pain, less scarring and a shorter stay in hospital than they do with conventional "open" surgery.

But the technique, which involves using long rigid instruments through small "keyhole" incisions, has the disadvantage that surgeons cannot "feel" the resistance of the internal organs and surrounding tissue with their hands.

This problem has been tackled by scientists at Daimler-Benz, the University of Tübingen and Dornier Medizintechnik which have designed "tactile forceps".

The jaws of the forceps are fitted with sensors that measure the pressure applied to the instrument inside the patient's body. This information is conveyed to the handle, where actuators convert it into pressure on the surgeon's fingertips. Prototypes of the forceps are now undergoing clinical tests.

Daimler-Benz: Germany, tel 71117 93271; fax 71117 94365.

US Treasuries flat after large early gains

By Lisa Bransten in New York and Samer Iskandar and Conner Middelmann in London

US Treasuries gave up large early gains and were nearly flat by early afternoon, as traders prepared for an auction and the equity market recovered.

Prices were sharply higher in early trading as declines on international equity markets and an early sell-off in the US led some investors to seek the safety of bonds.

By midday, however, the equity market had recovered and the long bond was just $\frac{1}{32}$ stronger at $87\frac{3}{32}$ to yield 6.965 per cent, while the two-year note was up $\frac{1}{32}$ at $100\frac{1}{32}$, yielding 6.216 per cent. The September 30-year bond future was ⅛ lower at $108\frac{3}{32}$.

Mr William Shea, senior vice-president in the fixed-income department of Nikko Securities in New York, said the prospect of an afternoon auction of $12.5bn in five-year notes helped push bonds off session highs. Bonds generally fall before an auction as traders try to lift interest rates to attract investors.

Mr Shea expected bonds to move higher after the auction, because inflation remained under control and Mr Alan Greenspan, chairman of the Federal Reserve, had seemed to indicate in recent Congressional testimony that an interest rate increase in August was not inevitable.

"There is still a chance, and Mr Greenspan seems to believe, thet the economy will slow on its own," he said, adding that declines in equities would continue to bolster the fixed-income market.

■ Italian bonds once again underperformed other European markets. Liffe's September BTP future closed at 116.88, down 0.39. In the cash market, the 10-year yield spread over bunds widened to 299 basis points as the Bank of Italy's decision late Tuesday to cut rates prompted profit-taking.

The monetary easing was "probably the last piece of good news in the short term", said Mr Bruno Rovelli, an economist at Bank of America in Milan. However, he added, BTPs should be supported by the favourable inflation trend. He expects growth in consumer prices to dip below 3 per cent before year-end.

GOVERNMENT BONDS

With hopes of another rate cut fading, Mr Rovelli believes the longer end of the yield curve provides more value than shorter maturities, and predicts a tightening of the 10-year spread over bunds to around 280 basis points.

■ German bunds had a nervous session while traders speculated on whether the Bundesbank would cut its repo rate after today's fortnightly council meeting – the last before its summer recess.

Liffe's September bund future closed at 96.89, up 0.16. Analysts said a move to variable rate repos would be more bullish for the market than a one-off easing, because it could pave the way for a subsequent decline in the repo rate.

■ UK gilts ended a volatile day slightly higher, with the long gilt future on Liffe settling at $106\frac{31}{32}$, up ⅜ from Tuesday's close. Dealers said prices were supported by investors switching out of the equity market into bonds and by the strength of US Treasuries.

Stronger than expected retail sales data had no lasting effect on the market, although shorter maturities lagged behind the longer end as the numbers were seen to reduce hopes of another UK rate cut.

A cut in German interest rates at the Bundesbank's council meeting today could lend new support, dealers said.

The main focus today is the Bank of England's auction of £1.5bn of 8 per cent gilts due 2015. While the issue is not expected to see as strong demand as Tuesday's £2bn auction of 2000 stock, which was 4.8 times covered, dealers expected the sale to go well, forecasting a bid-to-cover ratio of between 1½ and three times.

● The eurobond market saw only three new issues in listless trading: an Ecu150m five-year offering for the European Bank for Reconstruction and Development, a Y16bn two-year deal for Swedish Export Credit, and a NZ$150m three-year issue for Bayerische Vereinsbank.

SEC advised to relax restrictions on issuance

The US Securities and Exchange Commission's advisory panel yesterday unveiled a proposal to ease restrictions on companies raising capital by issuing securities, reports Reuter from Washington.

If the proposal is adopted, it is likely to reduce costs for companies raising money from the markets.

In essence, the proposal would convert the current process of "shelf" registration. Instead of registering each proposed transaction, issuers would register with the SEC as a company, thus registering all existing and potential equity and debt securities.

Mr Steven Wallman, SEC commissioner and chairman of the advisory committee on capital formation, said the proposal would convert the current "stop-and-go" system into a "pay-as-you-go" process.

To test the feasibility of the proposal, the panel recommended that the SEC adopt a voluntary pilot programme for large companies that are regular issuers of securities.

The proposal pointed out the following potential benefits:

● Routine sales of securities could be done rapidly without any additional reviews by the SEC;

● Filing fees would be paid only when a company sold its securities, not when it filed a registration statement, as currently required;

● Issuers routinely selling securities would be allowed to issue shorter prospectuses explaining the nature of the transaction and the targeted investors;

● Corporate disclosures would be improved by requiring companies to file reports on "material" developmenta under a form known as 8-K within five business days, compared with the current 15 days.

Bangkok gives approval for IFC baht bond issue

By Ted Bardacke in Bangkok

Thailand's finance ministry has responded to a two-year old request and given the International Finance Corporation, the private-sector financing arm of the World Bank, permission to issue up to $200m in baht-denominated bonds, ministry officials said yesterday.

The issue will give an immediate boost to the supply of high-quality bonds to Thailand's fledgling bond market, which has stalled in recent months. In the first quarter of 1996, new bond offerings declined 14 per cent from a year earlier to $684m, and investors complain that the market is illiquid.

The World Bank expects the Thai bond market to be the fastest growing in Asia through to the middle of the next decade, when it estimates that the market will be valued at 35 per cent of GDP. Currently, the country has the second smallest bond market in east Asia, after Indonesia, accounting for only 10 per cent of GDP, compared with 72 per cent for Singapore and 39 per cent for Malaysia.

The IFC issue will also deepen the swap market for Thai baht, as the IFC will immediately convert the proceeds into US dollars for its general funding purposes.

"The market is so shallow right now that if you are trying to bring in $100m, everybody in the market knows it right away and swap rates immediately go up," one currency dealer said. "This should help."

Thailand's authorisation is a victory for the IFC, which, in an attempt to widen its funding base and develop bond markets throughout the region, has been trying to convince a number of Asian countries to allow it to issue bonds in local currencies. The IFC currently has outstanding applications to issue bonds in Korean won, Indonesian rupiah and Malaysian ringgit.

However, Thai authorities did not yield to all IFC requests on the specifications of the bond, which may hamper the issue's effectiveness in helping to develop a benchmark interest rate and a bond yield curve, both still in primitive stages.

The IFC had asked that the bonds be treated like Thai state-enterprise bonds, making them eligible to be held by financial institutions as part of their reserve requirements, and for them to be eligible to be traded through the central bank's repurchase window. It hoped these qualities would increase the number of buyers of the primary issue and facilitate secondary market trading.

Instead, the bonds will be treated like private sector bonds, the finance ministry said, noting that to have given them all the privileges of state-enterprise bonds would have required cumbersome changes to Thai law and delayed the issue further.

Some observers say this was a concession to those within the ministry who opposed the IFC issue in the first place, on the principle that with a large savings-investment gap, any baht savings should be kept in the country and not swapped into foreign currency.

Nevertheless, the ministry eventually yielded because the IFC is the largest foreign lender in Thailand, analysts said.

● In a separate development, the ministry said it planned to launch a five-year $300m floating-rate note issue in the European markets by the year-end, the Thai government's first foray into the eurobond market. Deutsche Morgan Grenfell is co-ordinating the issue.

Global hedge funds outperform leading indices

By Peter John

Global hedge funds sharply outperformed the leading US and world indices in the second quarter, with big returns generated from emerging markets.

However, broad statistics from hedge fund trackers mask a weaker trend in domestic US funds during June, when heavy selling of shares in smaller companies led not only to underperformance but to an overall fall.

Van Hedge Fund Advisors, a US investment advisory company which looks at the performance of 2,000 hedge funds, says its Global Hedge Fund index rose more than 6 per cent over the quarter, compared with a rise of 2.5 per cent in the World Equity Index and a 4.5 per cent rise in the S&P 500 index. However, the US Hedge Fund index fell 0.4 per cent in June.

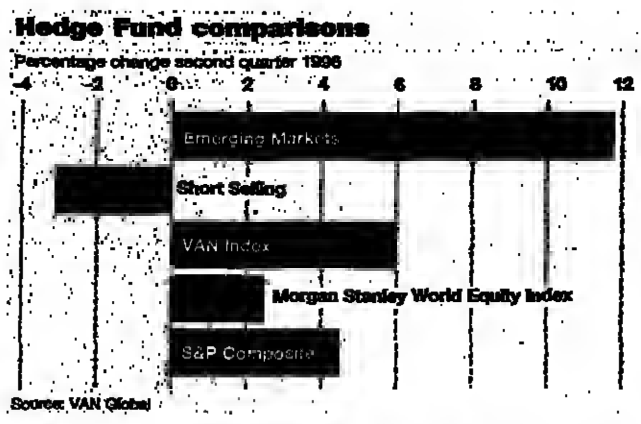
Most of that slide came from the aggressive growth funds, which are traditionally big buyers of the small, high-growth companies. They were hit by sharp corrections in technology, bio-tech and small-cap issues. In June the small-cap growth index was down by six per cent.

Nevertheless, Mr George Van, chairman of the Tennessee-based company, said yesterday that fears of a hedge fund led crash on Wall Street were irrational.

"US funds offer quarterly redemption at best. If an investor is unhappy about the market, by the time he is able to do something meaningful the situation has usually changed," he said.

Conversely, last month saw a sharp reversal in fortune for the short sellers, funds which speculate on big market falls. Down an estimated 3.1 per cent over the quarter as a whole, they rose by 7 per cent in June, according to Van Hedge, profit-taking from the slide on Wall Street.

Hedge Fund comparisons



Source: VAN Global

The same story comes from Mar/Hedge, the New York-based tracker of 700 hedge funds. It concludes that "opportunity managers" took a 1 per cent loss while short sellers reversed their losses in June. In line with the high returns seen in emerging markets, Mar/Hedge reports that Baring Emerging Europe was the best single performer, with a gain of 16.7 per cent.

"Funds are really doing well because the emerging markets are doing very well. It is mainly the old eastern European blocks - Poland, Czechoslovakia and particularly, Russia," said Mr Van.

WPG Hennessee, another hedge advisory group, pinpoints Latin America as the star performing area, with gains of almost 20 per cent over the year to date and 3 per cent over the past month.

It says investor sentiment has improved as Latin American countries continue to have greater access to international credit markets.

That access was highlighted by Mexico's planned issue of $3bn in hybrid floating-rate notes and loans, which some bankers believe could be increased to between $5bn and $6bn. An increase to that level, which must be made by today's subscription deadline, would result in the biggest ever single-tranche sovereign debt issue.

The one exception was the Pacific Rim funds, which turned down in June as Asian markets moved lower on concerns about the direction of US interest rates.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.0990	-	8.88	8.88	9.08
Austria		6.250	05/06	97.9700	+0.130	6.43	6.47	6.52
Belgium		7.000	05/06	101.8400	+0.060	6.73	6.81	6.80
Canada *		7.000	12/06	95.4700	+0.400	7.94	7.74	7.96
Denmark		6.000	03/06	104.5800	-0.080	7.31	7.39	7.50
France	BTAN	5.750	03/01	101.2400	-	5.38	5.64	5.54
	OAT	7.250	04/06	106.3200	+0.070	6.35	6.48	6.88
Germany Bund		6.250	04/06	98.9500	+0.090	6.39	6.49	6.62
Ireland		8.000	08/06	102.8000	+0.200	7.59	7.86	7.81
Italy		9.500	02/06	102.0600	-0.270	9.17†	9.47	9.44
Japan	No 140	6.800	06/01	118.8409	+0.360	2.31	2.43	2.28
	No 182	3.000	09/05	97.8934	+0.410	3.30	3.37	3.20
Netherlands		6.000	01/06	97.5400	+0.020	6.35	6.44	6.51
Portugal		11.875	02/05	119.2900	+0.090	8.58	8.67	8.95
Spain		8.800	04/06	100.6400	-0.210	8.68	8.83	9.18
Sweden		6.000	02/05	86.7060	+0.110	8.22	8.43	8.43
UK Gilts		8.000	12/00	103-04	+4/32	7.15	7.17	7.33
		7.500	12/06	97-09	+7/32	7.89	7.95	8.08
		9.000	10/08	107-22	+9/32	8.00	8.06	8.19
US Treasury *		7.000	07/06	101-15	+13/32	6.78	6.87	7.05
		6.000	02/26	87-30	+16/32	6.97	7.05	7.20
ECU (French Govt)		7.500	04/05	104.6100	+0.130	6.78	6.93	7.03

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.18
Prime rate	8¼	Two month	-	Three year	6.33
Broker loan rate	7	Three month	5.17	Five year	6.55
Fed.funds	5¼	Six month	5.48	10-year	6.76
Fed.funds at intervention	-	One year	5.80	30-year	6.94

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FF500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Aug	Calls Sep	Calls Dec	Calls Mar	Puts Aug	Puts Sep	Puts Dec	Puts Mar
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total [illegible]

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
9650	0.39	0.78	0.54	0.88	0	0.39	1.06	1.40
9700	0	0.48	0.37	0.86	0.11	0.59	1.39	1.70
9750	0	0.27	0.24	0.51	0.61	0.88	1.78	2.03

Est. vol. total, Calls 20476 Puts 12233. Previous day's open int., Calls 178881 Puts 207703

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	117.65	116.88	-0.39	117.78	116.75	51785	64147
Dec	117.00	116.14	-0.41	117.00	116.30	1134	3203

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
11650	1.06	1.69	0.70	2.05
11700	0.82	1.42	0.94	2.28
11750	0.59	1.21	1.21	2.57

Est. vol. total, Calls 8533 Puts 4460. Previous day's open int., Calls 81867 Puts 69963

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	102.24	101.76	-0.09	102.31	101.65	64,733	50,176

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	106-28	106-31	+0-12	107-05	106-18	57579	134648
Dec	106-00	106-05	+0-12	106-00	106-00	75	678

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total [illegible]

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	n/a
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Jul 24	Day's change %	Tue Jul 23	Accrued interest	xd adj. ytd		Low coupon yield Jul 24	Jul 23	Yr. ago	Medium coupon yield Jul 24	Jul 23	Yr. ago	High coupon yield Jul 24	Jul 23	Yr. ago
1 Up to 5 years (22)	122.36	0.04	122.32	2.75	5.12	5 yrs	7.27	7.31	7.96	7.31	7.36	7.98	7.30	7.37	8.07
2 5-15 years (20)	146.94	0.31	146.48	2.30	6.39	15 yrs	8.09	8.14	8.34	8.11	8.16	8.36	8.17	8.24	8.47
3 Over 15 years (8)	161.81	0.48	161.04	3.56	6.43	20 yrs	8.18	8.23	8.37	8.19	8.24	8.39	8.23	8.32	8.48
4 Irredeemables (6)	183.94	0.75	182.57	2.16	7.38	Irred.†	8.23	8.29	8.47						
5 All stocks (56)	142.34	0.24	142.00	2.73	5.98										

Index-linked							Inflation 5% Jul 24	Jul 23	Yr. ago	Inflation 10% Jul 24	Jul 23	Yr. ago
6 Up to 5 years (1)	198.05	-0.08	198.20	2.17	4.43	Up to 5 yrs	2.76	2.70	3.34	1.14	1.08	1.58
7 Over 5 years (11)	187.42	0.03	187.36	1.15	2.79	Over 5 yrs	3.78	3.78	3.68	3.56	3.56	3.46
8 All stocks (12)	187.53	0.03	187.48	1.17	2.81							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jul 24	Jul 23	Jul 22	Jul 19	Jul 18	Yr ago	High*	Low*
Govt. Secs. (UK)	93.10	92.77	92.95	92.88	92.90	92.79	96.34	91.59
Fixed Interest	112.83	112.83	112.92	112.91	112.52	111.24	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jul 23	Jul 22	Jul 19	Jul 18	Jul 17
Gilt Edged bargains	95.6	72.6	87.2	97.8	108.7
5-day average	92.0	93.1	95.1	92.7	89.8

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. [illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on July 24

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	96¾	97	+⅛	7.11
ABN Amro Bank 7¼ 05	1000	99¼	99½	+⅛	7.50
Alcan Dev Bk 7⅛ 23	000	95	95½	+⅛	7.73
Alberta Province 7⅜ 98	1000	102¼	102⅜	+⅛	6.51
Asian Dev Bank 6¼ 05	750	[illegible]	[illegible]	[illegible]	7.19
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden 8 97	2500	105⅛	105⅛		3.80
United Kingdom 7¼ 97	5500	104⅛	104⅛		3.70
Volkswagen Intl Fin 7 03	1000	103⅜	103⅝		6.37
World Bank 0 15	2000	31	31¼	+½	8.22
World Bank 5⅞ 05	3000	98⅞	99½	+⅛	5.98
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Abbey Natl Treasury 8 03 £	1000	100⅞	100⅞	+⅛	7.91
British Land 8⅞ 23 £	150	90¼	90⅞		10.16
Denmark 6¾ 98 £	800	100⅞	100½		8.61
Depfa Finance 7⅞ 03 £	000	95⅛	95⅝	+⅛	8.02
EIB 8 03 £	1000	101⅝	101⅞	+⅛	7.78
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. [illegible] CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Dollar stands firm amid stock market weakness

By Philip Gawith

The dollar yesterday managed to stand firm as the generalised weakness of global stock markets failed to offer any clear message to currency markets.

Last week the weakness in US markets contributed to a weaker dollar, but this relationship has become more confused as other markets have started to fall as well. Yesterday the dollar closed little changed in London at DM1.4877 from DM1.4897. Against the yen it finished at Y108.02, from Y107.965.

Traders were also reluctant to sell dollars ahead of the Bundesbank council meeting today. Speculation is high that the council will announce a 5-15 basis point cut in the repo rate, from 3.3 per cent. Ostensibly dollar positive, such a cut could prove more ambiguous for currency markets if traders conclude that it is the final easing of policy in the current cycle.

In Europe the lira lost ground against the D-Mark, finishing at L1,020 from L1,016 amid concern about renewed political instability following tensions within the ruling coalition.

Sterling had a steady day, with the trade weighted index closing at 85 from 84.9.

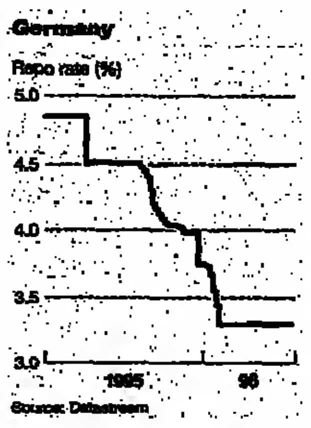
■ Mr Jim O'Neill, chief currency economist at Goldman Sachs, gave notice that he would probably revise downward his dollar forecasts (currently DM1.60 and Y116 in six months) following recent developments in the US. The two main factors underpinning this judgment are the outlook for US interest rates, and the US's trade performance.

Mr O'Neill said the dollar's rally had been driven by the expectation of higher rates and evidence of an improving trade balance. Recent events have called both arguments into question. The Humphrey-Hawkins testimony of Fed chairman Alan Greenspan, he said, showed "no evidence of a desire to quickly raise interest rates."

Coupled with growing US corporate complaints about dollar strength, and "very disappointing" May trade data, Mr O'Neill said it was time for a "shift in strategy". He did add the caveat that the dollar's downside appeared fairly limited owing to likely concerns in Germany and Japan that a weaker dollar could hurt their recoveries.

But he also noted that "while a significant decline in the dollar would seem to be opposed to G7 interests, they do not always get their wishes, especially if key players are not so strongly committed."

Germany



Source: Datastream

Another observer who recently turned bearish on the dollar is Mr Brian Marber, a London based technical analyst. He believes the dollar's fall below L1,530 against the lira on Tuesday confirms a head and shoulders pattern, the inference being a "no time limit decline to L1,397". Given his forecast that the D-Mark, Swiss franc and French franc will outperform the lira, Mr Marber concludes that "all four should rise against the dollar in the longer term as well."

As an aside, he cautioned against the dollar's current oversold position (by some indicators it was more oversold on Monday than at the April 1995 low) being taken as a buying opportunity. "When the major trend is turning down, excessively heavily oversold conditions are the norm – that is how you know the trend is changing direction."

■ Mr Avinash Persaud, currency strategist at JP Morgan in London, has done some research examining what can be learnt about the impact of past US equity crashes on the dollar.

He concludes that "the key to the dollar's direction is how the crash affects the course of official interest rates." When interest rates rise before and continue rising after an equity crash, the dollar trends higher. If rates are falling, the dollar trends lower.

"Worse news for the dollar," said Mr Persaud, "is when an equity crash causes interest rates to stop rising. In six out of six of these occasions (out of the 48 occasions over the past 15 years when the Dow has fallen by more than four per cent within a fortnight) the dollar has fallen back." Across all 48 crashes dollar/yen and dollar/D-Mark have performed similarly.

Noting that dollar/D-Mark only tends to rally when short rates rise from a high level, Mr Persaud said "the Dow sell-off only effects this outlook to the degree that it leads to an abandonment of Fed tightening at the August FOMC meeting."

■ Pound in New York

Jul 24	—Latest—	– Prev. close –
2 spot	1.5540	1.5530
1 mth	1.5535	1.5525
3 mth	1.5543	1.5526
1 yr	1.5552	1.5552

■ OTHER CURRENCIES

Jul 24	£	$
Czech Kr	41.5434 - 41.5832	26.8010 - 26.8210
Hungary	232.107 - 232.289	149.380 - 149.430
Iran	4663.50 - 4661.40	3000.00 - 3000.00
Kuwait	0.4632 - 0.4636	0.2994 - 0.2995
Poland	4.1984 - 4.2065	2.7039 - 2.7080
Russia	8048.88 - 8056.97	5180.00 - 5183.00
U.A.E.	5.7062 - 5.7092	3.6724 - 3.6727

POUND SPOT FORWARD AGAINST THE POUND

Jul 24		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.2709	+0.0121	633 - 784	16.2882	16.2372	16.2397	2.3	16.1647	2.6	-	-	105.2
Belgium	(BFr)	47.6658	+0.0454	240 - 076	47.6920	47.5580	47.5708	2.4	47.3908	2.4	46.5908	2.3	107.0
Denmark	(DKr)	8.9170	+0.0073	126 - 213	8.9260	8.9021	8.9032	1.9	8.8829	1.5	8.7751	1.8	107.8
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	10.4693	-0.0142	668 - 718	10.4970	10.4320	10.4498	2.2	10.4078	2.3	10.2243	2.3	105.1
Belgium	(BFr)	30.6700	-0.035	500 - 900	30.7370	30.5700	30.615	2.2	30.5	2.2	29.98	2.3	108.6
Denmark	(DKr)	5.7375	-0.007	360 - 390	5.7517	5.7200	5.73	1.8	5.713	1.7	5.644	1.8	107.2
[illegible]													

WORLD INTEREST RATES

MONEY RATES

July 24	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
[illegible]								

EURO CURRENCY INTEREST RATES

Jul 24	Short term	7 days notice	One month	Three months	Six months	One year
[illegible]						

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

July 24		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
[illegible]																		

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

UK INTEREST RATES

LONDON MONEY RATES

Jul 24	Over-night	7 days notice	One month	Three months	Six months	One year
[illegible]						

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
[illegible]						

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Puts Aug	Puts Sep	Puts Oct
[illegible]						

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
[illegible]						

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	Calls				Puts			
[illegible]								

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	Calls			Puts		
[illegible]						

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls			Puts		
[illegible]						

BASE LENDING RATES

[illegible]					

● Members of London Investment Banking Association
* In administration

CONTRACTS & TENDERS

MINISTRY OF ARTS, CRAFTS AND TOURISM SPA BUREAU

INTERNATIONAL INVITATION TO TENDER FOR THE SALE OF THE JEBEL OUST HOTEL, SPA AND SPORTS COMPLEX

The State, in accordance with its policy of withdrawing from the competitive sector, is pursuing a programme to restructure the spa & water cure sector and sell all the production units of the Spa Bureau. Under this programme, an international invitation to tender is being launched for the sale of the Jebel Oust Hotel, Spa and Sports Complex.

Specifications are available, from the date of publication of this announcement, from the Spa Bureau (Office du Thermalisme) at 8 rue du Sénégal 1002 Tunis le Belvédère, Tunisia; at a cost of TND300 (three hundred dinars).

Interested parties in possession of specification can visit the Jebel Oust Hotel, Spa and Sports Complex on working days from 9am to 12pm. Appointments must be made in advance with the Chairman and Managing Director of the Spa Bureau.

Tenders, accompanied by the specifications and annexes, should be sent by registered mail in a sealed double envelope to the Ministère du Développement Economique, secrétariat de la Direction Générale de Privatisation, Place Ali Zouaoui, 1000 Tunis, Tunisia.

The outside envelope should bear no indications other than the words *Ne pas ouvrir - appel d'offres pour la vente du Complexe Hôtelier-Thermal et Sportif de Jebel Oust* (i.e. Do not open - tender for the sale of the Jebel Oust Hotel, Spa and Sports Complex).

Tenders must be received and stamped no later than Saturday September 7, 1996 by the Ministry of Economic Development orders department.

Tenders received after this date or incomplete tenders will be rejected.

COMMODITIES AND AGRICULTURE

Farm ministers reach surprise reforms accord

By Neil Buckley in Brussels

European Union farm ministers reached a surprise agreement yesterday on a three important measures, including agricultural prices for 1996-97, reform of the fruit and vegetables market and the rate of set-aside land.

The complex discussions – overshadowed by a new controversy over evidence that "mad cow" disease can be transmitted to sheep – were expected to last possibly until today. Some officials feared no agreement would be reached, and existing arrangements would again have to be extended.

But after agreement was narrowly missed at a ministerial meeting chaired by the Italian farm minister last month, the new chairman, Mr Ivan Yates, the Irish farm minister, steered ministers to a broad compromise in the early hours.

The council of ministers broadly agreed to the European Commission's proposals to freeze basic farm prices for the next year, while making reforms in certain areas.

One change is that the amount of land that has to be set aside, or left fallow, by cereal farmers, will be halved from 10 per cent to 5 per cent – although France, Europe's largest producer, had pushed for a 0 per cent rate.

Mr Franz Fischler, EU agriculture commissioner, said the decision would lead to an increase in cereal production of about 8m tonnes. That would help replenish low cereal stocks within the EU and ensure the EU continued to play an important role on international markets, he said.

The decision followed months of lobbying by farmers who said more grain was needed after drought and low stocks had pushed wheat prices to record levels this year.

Ministers also agreed on reforms to the fruit and vegetable sector, involving production subsidies fixed at no more than 4 per cent of the value of total marketed production of each product category, rising to 4.5 per cent in 1999.

Mr Fischler said the agreement would help adapt the EU's fruit and vegetable sector to the requirements of the market, improve its competitiveness, and avoid the widespread destruction of surplus fruit and vegetables of recent years.

Measures outlined by Mr Fischler to rebalance the beef market in the wake of the BSE crisis were also given a positive reception by ministers. Mr Fischler will turn the ideas into formal proposals to fellow commissioners next week, and to ministers at their next meeting in September.

The commissioner wants to extend the commission's right to buy up beef to support the market to younger, lighter animals of eight to nine months of age – it is currently only allowed to buy meat from older, heavier animals. He is also likely to propose raising the limit on the amount of beef the commission can buy from 400,000 tonnes to about 700,000 tonnes this year, and from 300,000 to about 500,000 tonnes next year.

● The European Union cereals management committee will continue discussions on blocked increases in durum wheat and processed oats imports today, reports Reuters from Brussels.

"The concession would allow Australia, the US and Canada to export an additional 50,000 tonnes of durum wheat and 10,000 tonnes of processed oats (July to June) to the EU but has been blocked because Canada wants to narrow the definition of oats to clipped oats only," an EU official said.

Canada's own clipped oats exports would benefit under an adjusted agreement.

Settlement at Kitimat dents aluminium

By Kenneth Gooding, Mining Correspondent

News that a strike had been averted at the last moment at Alcan's biggest smelter, the 272,000-tonnes-a-year Kitimat plant, dented aluminium prices on the London Metal Exchange yesterday.

Traders said profit taking by some funds drove the price for aluminium for delivery in three months down to $1,494 a tonne in early trading. But it recovered to end above the psychologically important $1,500 level at $1,503, down $6.50 from Tuesday's close.

The labour contract at Kitimat came to an end yesterday and unions are to vote on the new one today.

Mr Martin Squires, analyst at Rudolf Wolff, part of Noranda, the Canadian natural resources group, suggested the importance of a possible Kitimat strike had been overdone. It "arose out of the apathy within the market, which is lacking from direction and suffering from depressed physical demand but is looking for reasons to strengthen".

Nevertheless, like many other analysts, he expected aluminium prices to rise, but after further consolidation during the northern hemisphere summer months when demand was low. Eventually, prices would go above levels seen at the beginning of this year – $1,700 a tonne.

Unexploded Vietnam war bombs still curb cultivation

Toiling in Laos' killing fields

By John Madeley

Danger zone: Workers in the paddy fields risk life and limb

Agriculture in Laos is severely hindered by unexploded bombs that were dropped during the Vietnam war. From 1964 to 1973, Laos endured protracted and intense ground battles and some of the heaviest aerial bombing ever known.

The United States dropped more bombs on Laos, a country about the same size as the UK, than it did on all targets in the whole of the second world war. The US forces carried out half a million bombing missions – a planeload of bombs every eight minutes around the clock for nine years, dropping more than 2m tonnes of bombs.

The heaviest bombing took place in rural areas – along the course of the Ho Chi Minh Trail, the Vietnamese supply line that ran along almost the full length of the eastern border of Laos, and in the northern provinces of Houaphan and Xieng Khouang. In 12 of the country's 17 provinces, large tracts of land can still only be farmed at great risk, inhibiting agricultural development and food security.

Most of the country's 4.6m people belong to smallholder, subsistence rice-farming families who rely on rainfall to water their crops. Deforestation is severe, both because of logging for export and "slash and burn" agriculture, and has led to decreased water supply.

But bombs are the chief problem of farmers in affected areas. They are fearful every time they venture into their paddy fields.

Much of the bombing consisted of anti-personnel cluster bombs – canisters containing 600 to 700 bomblets the size of tennis balls. These "bombies", as they are known in Laos, had a failure rate of around 30 per cent and, after more than 20 years of peace, still litter paddy fields, forests and grazing land in almost half the country – bringing death and injury when they are disturbed by human tread or the movement of an agricultural implement.

The bombs cause enormous human suffering, with 55 per cent of victims killed and the rest suffering permanent injuries – mainly blindness and shrapnel wounds – and result in the denial of cultivable land for farmers in the poorest country in South-East Asia.

An official of the United Nations Development Programme said: "The problem is one of the root causes of poverty and food shortages in the affected provinces." Many villages in Xieng Khouang province were short of food for three to five months a year as a direct result of arable land being inaccessible because of unexploded bombs, he said.

While villagers suffer food shortages and malnutrition, farmers are forced to open up new land, putting their lives at risk.

Enormous benefits would result from clearing these bombs, says the UNDP, in terms of a reduction of accidents and human suffering, the return of land to its natural usage, increased yields as a result of clearing land for agriculture, increased food security for affected communities, and the removal of an important barrier to development projects hampered by the bombs.

UNDP, with the Laos government and Unicef, has set up a trust fund to help clear the bombs and is trying to encourage donor countries to give aid.

The United States has offered military personnel and equipment to clear the bombs but no agreement has been reached owing to the reluctance of the Laos government to have the US military involved.

The legacy of the bombs is becoming more serious. During the war, more than half the Laos population was displaced and the most war-ravaged areas were virtually depopulated. People have only gradually returned to their homes, and, together with population growth, there is increased demand for farming land.

The UNDP official said: "Safe new land needs to be 're-opened' for cultivation to counter a likely increase in accident rates if families are forced to farm dangerous land."

Ironically, some of the bombs that do eventually explode are bringing a spin-off. Working on a Overseas Development Administration rice-fish project in Laos, a Reading University researcher, Anna Lawrence, noticed that poorer farmers in a remote upland district near the Vietnam border, called Nong, which suffered heavy bombing, were making good use of bomb craters by turning them into fish ponds – "which are usually found only on the land of privileged farmers," she said.

BHP wins six-year deal with miners

By Nikki Tait in Sydney

As Australia's striking coal miners were ordered back to work yesterday, BHP announced that it had reached a six-year agreement with the powerful Construction, Forestry, Mining and Energy Union, covering industrial relations issues at 13 coalmining operations and associated coal-loading facilities.

The 48-hour national coal strike was called on Tuesday after eight miners who were picketing the Vickery coal mine in New South Wales were arrested.

They had been refusing to allow maintainence contractors on to the site.

The Vickery operation is owned by RTZ-CRA, the Anglo-Australian mining group, and miners there have been on strike since August in protest at the company's plans for 12-hour shifts and other changes to working practices.

Yesterday, however, the national strike proved short-lived – with the Australian Industrial Relations Commission, the main labour arbitration body, ordering an immediate end to the action.

The AIRC said it was unreasonable and unwarranted for a local dispute to escalate to a national scale.

Meanwhile, BHP, Australia's largest resources group, announced that it had reached a "framework" agreement with the CFMEU that may protect it from external disputes.

It said that the agreement reinforced "the need to put in place procedures to resolve industrial issues at a local level" and would incorporate "arrangements in regard to disputes which are external" to its own coal operations.

The agreement would then back up locally-based enterprise agreements, either in place or being negotiated at mine level.

Output of Voisey Bay mine will create watershed in nickel prices

By Nikki Tait in Sydney

Nickel prices are set to rise for the next two years and will peak in 1998 before declining in 1999-2000 as output from the new Voisey Bay mine in Canada "puts a new floor under nickel production costs" and the nickel market moves into surplus, according to the latest forecasts from AME Mineral Economics, the Sydney-based research firm.

The forecasters envisage that the nickel price will average around US$4.50/lb (in 1995 dollars) in 1998, the peak year of the current cycle, compared with $3.74/lb in 1995. They see an average price of US$3.85/lb this year, rising to US$4.30/lb in 1997. They predict an average annual growth rate in global nickel consumption of 3.1 per cent over the next decade, taking total consumption to 1.31m tonnes by the year 2005.

In particular, many of the developing Asian economies – notably Taiwan, South Korea and India – will post sharp demand increases. AME reckons that "developing Asia", which currently consumes 13 per cent of western nickel output, will take about 21 per cent by the year 2005.

"When Chinese consumption is added to the equation, East Asia will account for close to one-quarter of global nickel consumption by 2005," it says.

However, western primary nickel production will exceed 680,000 tonnes this year, a record, and top 1m tonnes a year by 2005, although Voisey Bay's production "will inevitably result in the deferral and even cancellation of marginal nickel projects and make it that much harder for new players to enter the industry".

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1462.5-63.5	1498-99
Previous	1468.5-69.5	1505-06
High/low	1463	1507/1496
AM Official	1462.5-63.5	1498-98.5
Kerb close		1504-05
Open int.	232,963	
Total daily turnover	42,701	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1240-50	1275-85
Previous	1255-60	1290-92
High/low		1295/1280
AM Official	1245-50	1282-83
Kerb close		1285-87
Open int.	4,844	
Total daily turnover	310	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	780-1	788-9
Previous	779-80	787-8
High/low		790/784
AM Official	776.5-7	785-5.5
Kerb close		790-1
Open int.	30,353	
Total daily turnover	6,090	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6980-90	7095-100
Previous	7060-70	7175-80
High/low		7200/7060
AM Official	6950-60	7060-70
Kerb close		7135-40
Open int.	41,605	
Total daily turnover	8,294	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6190-200	6250-60
Previous	6195-200	6250-55
High/low		6270/6250
AM Official	6200-05	6255-60
Kerb close		6260-65
Open int.	16,047	
Total daily turnover	4,257	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	988.5-9.5	1016-17
Previous	992.5-93.5	1020-21
High/low	991/980	1022/1016
AM Official	990.5-1	1017.5-18.5
Kerb close		1019-20
Open int.	64,497	
Total daily turnover	8,194	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2020-25	1927-29
Previous	2020-25	1933-34
High/low	2020/2015	1944/1926
AM Official	2016-18	1933-35
Kerb close		1943-44
Open int.	194,205	
Total daily turnover	52,357	

■ LME AM Official £/$ rate: 1.5545
LME Closing £/$ rate: 1.5540

Spot: 1.5528 3 mths: 1.5525 6 mths: 1.5533 9 mths: 1.5544

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	93.80	+1.75	94.30	91.40	1,073	1,364
Aug	93.55	+1.20	94.00	91.50	337	2,426
Sep	92.80	+0.85	93.90	91.20	9,296	19,408
Oct	92.20	+1.05	-	-	3	1,350
Nov	91.30	+0.55	-	-	21	1,128
Dec	91.00	+0.75	91.90	89.50	1,670	13,107
Total					12,804	58,450

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	384.20-384.60		
Opening	384.60-384.90		
Morning fix	384.40	247.23	465.32
Afternoon fix	384.40	247.36	465.12
Day's High	385.30-385.70		
Day's Low	384.20-384.60		
Previous close	383.50-383.90		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month .... 4.55 6 months 4.12
2 months .... 4.45 12 months 4.06
3 months 4.43

Silver Fix	p/troy oz.	US cts equiv.
Spot	320.80	498.25
3 months	324.40	504.55
6 months	328.25	510.90
1 year	337.00	524.80

Gold Coins	$ price	£ equiv.
Krugerrand	382.5-385.5	246-248
Maple Leaf	394.10-396.60	
New Sovereign	87-89	56-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul–Apr, Total	[illegible]					

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul–Jul, Total	[illegible]					

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep–Jun, Total	[illegible]					

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul–May, Total	[illegible]					

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels; $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Sep–Feb, Total	[illegible]					

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Sep–Feb, Total	[illegible]					

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug–Jan, Total	[illegible]					

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug–Jan, Total	[illegible]					

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Aug–Jan, Total	[illegible]					

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug–Jan, Total	[illegible]					

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep–May, Total	[illegible]					

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep–Dec, Total	[illegible]					

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep–Jul, Total	[illegible]					

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep–May, Total	[illegible]					

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Aug–Mar, Total	[illegible]					

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Aug–Mar, Total	[illegible]					

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Aug–Mar, Total	[illegible]					

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov–Jun, Total	[illegible]					

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jul–Jan, Total	[illegible]					

	Close	Prev
BFI	1094	1103

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul–Jul, Total	[illegible]					

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Sep–Jul, Total	[illegible]					

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Jul 23	[illegible]	1012.17

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul–May, Total	[illegible]					

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep–Sep, Total	[illegible]					

■ COFFEE (ICO) (US cents/pound)

		Prev. day
Jul 23 Comp. daily	95.48	98.31
15 day average	101.43	102.25

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct–Aug, Total	[illegible]					

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct–Oct, Total	[illegible]					

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct–Jul, Total	[illegible]					

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep–Jul, Total	[illegible]					

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

Nuts and Seeds

Prices from Kenkko Group; US$ a tonne. Iranian pistachios 28/30 nw (in shell) naturally opened (round): 1995 crop 3,350 CFR/FOT MEP, up slightly; raw kernels at 6,250 FCA Hamburg/UK. US almonds (shelled): steady – 23/25 NPSSR AOL 5,975, shipment first half Sept, 5,775 shipment end-Sept/Oct; standard 6% 5,555 shipment Sept/Oct – all FAS California. US walnuts LHP 20% – 1995 crop 5,600 FAS California; new crop 5,000 Sept/Oct shipment. Indian cashews: ww W-320, 5,950 spot Europe – steady; from origin at 5,800 CFR India for second half of 1996. Turkish hazelnut kernels, 13/15 standard 1, 1995 crop, 2,850 FOB MEP; FAO at 2,700 FOB MEP. US hazelnut kernels, jumbo, new crop 4,050 FAS California, Sept/Oct shipment. Chinese pine kernels, super grade, 10,000 CIF MEP.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jul 24	Jul 23	month ago	year ago
1960.4	1957.5	1999.5	2207.7

■ CRB Futures (Base: 1967=100)

Jul 23	Jul 22	month ago	year ago
241.32	240.80	na	na

■ GSCI Spot (Base: 1970=100)

Jul 23	Jul 22	month ago	year ago
198.78	195.58	200.63	173.10

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug–Apr, Total	[illegible]					

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug–Feb	[illegible]					
Feb	74.850	+0.025	75.250	74.450	255	2,318
Apr	72.825	-0.125	73.250	72.650	47	590
Total					6,279	36,424

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	91.400	-2	92.800	91.400	256	177
Aug	86.825	-2	87.750	85.825	2,319	3,798
Feb	77.675	-0.7	79.300	76.800	874	2,031
Mar	77.000	-0.6	78.700	76.600	40	162
May	77.950	-0.85	77.950	77.300	2	70
Jul	78.100	-2	79.050	78.100	3	7
Total					3,495	6,246

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1400	96	140	5	18
1500	29	76	37	51
1600	4	35	111	108
■ COPPER (Grade A) LME	Sep	Dec	Sep	Dec
1800	138	150	30	92
1900	76	103	69	143
2000	38	68	129	205
■ COFFEE LCE	Sep	Nov	Sep	Nov
1450	117	134	39	93
1500	87	110	59	119
1550	63	91	85	150
■ COCOA LCE	Sep	Dec	Sep	Dec
950	68	94	4	20
9750	49	78	10	29
1000	32	73	18	49
■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1850	-	-	28	54
1900	72	-	45	-
1850	36	41	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.43-7.45	-0.195
Brent Blend (dated)	$19.31-9.36	-0.16
Brent Blend (Sep)	$19.11-9.14	-0.165
W.T.I.	$20.82-0.88x	-0.295

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

Premium Gasoline	$208-210	-1
Gas Oil	$182-183	+1
Heavy Fuel Oil	$87-89	
Naphtha	$192-194	-0.5
Jet fuel	$207-209	
Diesel	$183-184	-1.5

■ NATURAL GAS (Pence/therm)

Bacton (Aug)	13.10-13.45	+0.125

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

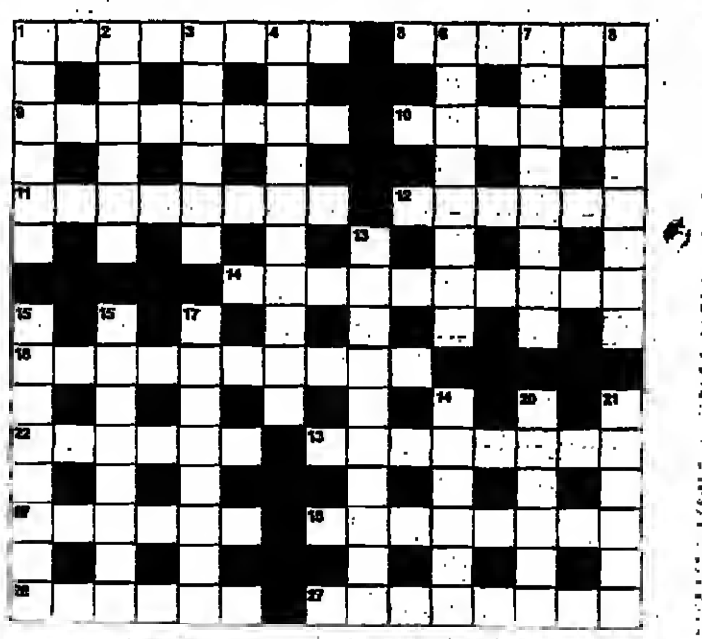
Gold (per troy oz)‡	$384.40	+0.70
Silver (per troy oz)‡	499.50c	+2.00
Platinum (per troy oz.)	$397.75	+1.25
Palladium (per troy oz.)	$133.65	-0.35
Copper	95.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.25r	+0.04
Tin (New York)	290.50	
Cattle (live weight)	99.09p	-0.16*
Sheep (live weight)	96.15p	-18.05*
Pigs (live weight)†	105.37p	-10.48*
Lon. day sugar (raw)	$310.80	+2.40
Lon. day sugar (wte)	$383.10	+3.10
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	$189.0x	
Wheat (US Dark North)	Unq	
Rubber (Aug)♥	91.00p	+0.25
Rubber (Sep)♥	91.00p	+0.25
Rubber (KL RSS No1)	334.50m	-0.50
Coconut Oil (Phil)§	770.00w	-10.0
Palm Oil (Malay.)§	$470.0	
Copra (Phil)§	$506.0w	
Soyabeans (US)	215.0w	
Cotton Outlook 'A' Index	79.75c	-0.55
Wooltops (64s Super)	430p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Sep. w Jul/Aug. z Aug/Sep ♥ London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 1,199 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,129 Set by ADAMANT



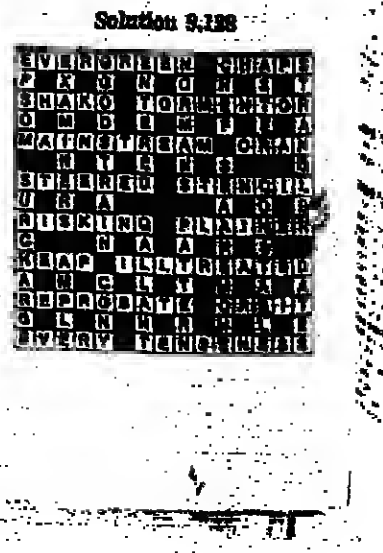
ACROSS

1 Laid back about bet (large) on "Deployment" (8)
5 Checks nothing is missing from a studio production (6)
9 Cancelled article about Name and pulled out quietly (8)
10 Slight misdemeanour, namely unlawful possession (6)
11 The main passage can't tail off (8)
12 Not an amateur heavyweight? That's the lightest bit (6)
14 Advertising campaigns for computer chips in drinks (10)
18 I'm standing for the heavy burden (10)
22 In charge of English fight – it's a chiller! (6)
23 One might spread gossip about Orcadian, for example (8)
24 Unimportant details on classic quartet in endless rehearsal (6)
25 Happened to be dropped (8)
26 Cheer about love's come back (3-3)
27 Was at the meeting two hours before midday, feeling numb, it's said (8)

DOWN

1 Depressed about damage arising from theatrical experiences (6)
2 One record (6)
3 Go up to Eros, making eyes (6)
4 After meal out, I speak better (10)
6 Make sore (8)
7 The lethargy of one cold-hearted race (8)
8 Being most unyielding, twice set out to capture the navy (8)
13 Unfortunately most men with mad cow disease have work above the surface (10)
15 Missionary, maybe, needs car to convert rest (8)
16 Desire that little French primate is put outside (8)
17 Cause surprise if moving, so I shan't (8)
19 Cope with silver in one's hair (6)
20 Beyond the sell by date for the layer's product (6)
21 Out back on dried fruit at beginning of diet (6)

Solution 9,128



FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

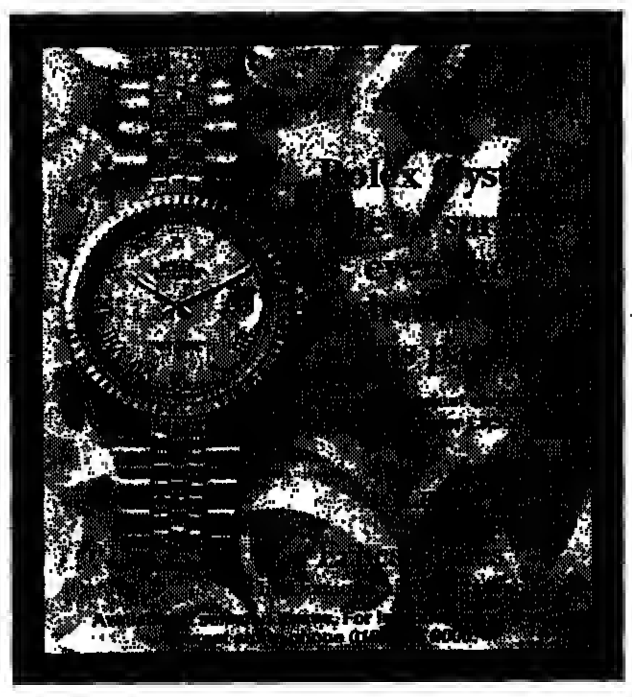
BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)



ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

LEISURE & HOTELS - Cont.

OTHER FINANCIAL - Cont.

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

AIM - Cont.

PAPER, PACKAGING & PRINTING

TELECOMMUNICATIONS

RETAILERS, FOOD

TEXTILES & APPAREL

LIFE ASSURANCE

MEDIA

RETAILERS, GENERAL

AMERICANS

PHARMACEUTICALS

TOBACCO

CANADIANS

PROPERTY

TRANSPORT

Trans Can Pipe ... Western Star Trucks

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FT-SE Actuaries Share Indices.

Approved by the Inland Revenue

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£28½		£34½	£26½	1,904	2.8	♦
Barlow	♦F	[illegible]	[illegible]	£10½	£6½	1,292	2.1	-
Gold Fields Prop R		121½	—	170	120	12.4	4.2	9.2
MK Props		75	—	86	75	3.61	12.4	-
SAPPI	♦	[illegible]	-9	710	475	[illegible]	1.7	-
SA Brews		£17⅞	[illegible]	£20⅛	£11⅞	5,197	2.1	♦
Standard Bank		£24½	[illegible]	£32¼	£20½	2,986	1.6	20.9
Tiger Oats	†	900	—	1270	770	1,203	2.1	16.1
Tongaat-Hulett		730	—	1247	735	846.7	2.6	♦

OIL EXPLORATION & PRODUCTION

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

WATER

INVESTMENT COMPANIES

SUPPORT SERVICES

AIM

OIL, INTEGRATED

OTHER FINANCIAL

LEISURE & HOTELS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- Ⅱ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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LONDON STOCK EXCHANGE

MARKET REPORT

UK shares on the retreat after Dow gyrations

By Steve Thompson, UK Stock Market Editor

European stock markets, including London, were gripped with a real fear that Wall Street was about to embark on another three-figure slide yesterday and retreated across the board.

London fell heavily for much of the session, anticipating an opening plunge by Wall Street, but began to stabilise in mid-afternoon in tandem with US markets.

The FT-SE 100 index, down almost 65 points at its worst in mid-afternoon, when the Dow Jones Industrial Average posted a 75-point decline, eventually ended the session 39.6, or 1.1 per cent, off at 3,668.8.

After its early slide, the Dow quickly embarked on a sustained recovery which took it back to level 30 minutes after London closed and over 30 points higher shortly after that.

The FT-SE 100's performance compared relatively favourably with those of other leading European markets, where Germany's Dax lost 1.2 per cent and France's CAC 1.4 per cent.

The late rally in the leaders did not carry over into the UK's second liners where the FT-SE Mid 250 index closed the day 54.9, or 1.3 per cent, off at 4,182.0.

Worries concerning Wall Street, were triggered overnight by reports that Ms Elaine Garzerelli, the Wall Street pundit, formerly with Lehman Bros but who still commands a big following with investors across the Atlantic, had predicted a big retracement in US stocks.

The reports suggested a 15 to 20 per cent retracement from their previous highs by the Dow and the Nasdaq stock measures which would take them back to around 4,600 and 1,000 respectively.

There were other worries for London, with the day's economic news, a higher than expected 1.3 per cent rise in retail sales during June, against most forecast of just short of one percentage point, causing further unease.

Other stories unsettling the stock market included lingering worries about the forthcoming sale of Standard Life's 32 per cent stake in Bank of Scotland, which was said by some traders to be encountering investor resistance earlier in the week.

And there was speculation that the flotation of Somerfield, the former Gateway supermarkets group, had run into problems.

The weakness in equities was not, however, accompanied by any substantial selling pressure from the institutions, who remained reluctant to unload stock: "They know it is equally difficult to pick up quality stock in a rising market," said one salesman.

Mr Richard Jeffrey, economist at Charterhouse Tilney, the stockbroker, said "the underlying concerns for London are always the vulnerability of Wall Street, but London is still not fundamentally overvalued."

Mr Ian Harnett, at SGST said "the case for buying UK equities is still sound, growth is coming through rapidly, inflation subdued and upgrades will come through later in the year."

Turnover at 6pm reached 579m shares. Retail business on Tuesday was a lowly £1.38bn.

Suter up after bid news

A spark of interest returned to conglomerates following news of a bid approach to Suter. The sector has lagged the market as a whole by 26 per cent over the past year and yesterday market talk was all about potential value release.

"The approach could trigger other bids; there is good value among some of the smaller conglomerates. The sector has suffered horribly from the shakeout this year at BTR and Hanson", one analyst said.

Suter, up 5 per cent in four days, jumped a further 27 to 197p yesterday, and by mid-afternoon pubs and hotels group Ascot Holdings had been confirmed as the potential bidder.

Ascot closed off 8 at 361p. A further statement from the company is due today and a rights issue was said to be on the cards. Ascot's market capitalisation is half that of Suter.

Stagecoach rises

Bus and rail operator Stagecoach supplied the market with good news for the second day running and in the process jumped to the top of the FT-SE Mid 250 rankings.

The stock rose almost 4 per cent after the announcement that it was set to acquire Swedbus, the Swedish national bus company with a 30 per cent share of the local market.

Analysts said the deal would probably be around the £100m mark, and looked favourable in turnover terms.

"Swedbus' turnover was £322m last year. This looks a good deal", said one analyst. He added: "Swedbus' operating margins are around 7 per cent, almost half those of Stagecoach's UK bus business with plenty of scope for improvement".

Up 5 on Monday following an upbeat trading statement, Stagecoach shares added a further 17 to 456p.

Airports group BAA continued to suffer from a recent negative note from Goldman Sachs. The stock ended 14 lower at 475p for a three-day decline of almost 5 per cent.

Channel tunnel operator Eurotunnel, which announced top management changes yesterday, came off 4 to 99p.

Reuters easier

International media group Reuters won the dubious honour of worst performer in the Footsie yesterday, following its interim figures.

Profits, up 19 per cent to £342m, were at the top end of market expectations. However, a closer look at the figures raised concerns about revenue growth in the group's core business which sent its shares into retreat. They fell 25 to 703p, after a heavy trading session that saw volume expand to 8.1m.

Explaining the poor reception for the figures, Mr Brian Newman at agency broker Henderson Crosthwaite said: "Revenue growth in the core business at 6 per cent was pedestrian. The recently launched 3,000 new product range will not have a significant impact on revenue untill 1997." The broker believes the stock will "now have a pause in upward momentum."

Henderson Crosthwaite is maintaining its full year forecast at £690m. However, not everyone was cautious about the figures and Panmure Gordon not only welcomed those but remained a fan of the stock. Analysts at the broker raised their year end pretax forecast for Reuters by £10m to £694m.

Bank of Scotland was the only banking stock that managed to resist the poor market trend as speculation about the outcome of the bookbuilding process to sell its 29 per cent stake in Standard Life continued to do the rounds of the market yesterday. The shares edged 1½ forward to 232p, after trade of 2.6m.

Rumours just before the market close suggested the price for each share was likely to be around the 222p mark, well ahead of earlier predictions of 210-215p a share and that all the stock would be successfully placed with a wide range of institutions.

In the rest of retail banking, profit-taking saw HSBC relinquish 15 to 1053p, while Barclays followed the market lower closing 6 off at 798p, on volume of 4m.

In other financials, Lloyds Abbey Life gained 9 to 536p, after reporting a sparkling set of interim figures.

The company also said first half sales of life, pensions and unit trusts rose on an annualised basis by 29 per cent, indicating greater customer confidence.

Mobile phone groups Vodafone and Orange both moved lower yesterday in spite of strong switch advice from Kleinwort Benson.

The broker has downgraded its Vodafone profit estimates for this year and next, and says that given the recent disparate share price performance of the two companies Orange provides the better value.

Vodafone, aided by its overseas earnings cushion, has lagged the market as a whole by 4 per cent over the past month while at Orange the relative ratio is 22 per cent.

Orange shed 2 to 180p and Vodafone came off 2 to 222½p. BT shed 2½ to 356p ahead of today's first quarter results.

Defence stocks featured among the worst hit Footsie components following news of renewed cabinet in-fighting over the defence budget. British Aerospace retreated 21 to 925p and Rolls-Royce came off 5½ to 216½p.

Electrical group Menvier-Swain rose 25 to 270p on strong results. Software group Virtuality fell 56 to 177p after the company had forecast another loss for this year.

Thorn EMI was the best performing stock in the FT-SE 100, rising 19 to 1714p on the back of good first half results from Philips' entertainment subsidiary, Polygram.

Analysts said the move was a bit of a bounce with the stock being adversely affected recently by worries over compact disc pricing in the US and disappointment in some quarters over first quarter results.

The market's continued satisfaction at Tesco not making a counter bid for Docks de France was reflected in the shares adding 5 to 287p and outperforming the wider market.

Asda firmed to 115½p with one analyst saying that the stock looked cheap against the sector.

Buying interest from the US, where AB Foods is becoming better known, was said to be responsible for it rising one penny to 402p.

Concerns over the imminent flotation of Dairy Crest was said by one analyst for weakening Unigate which fell 6 to 398p.

The sharp decline of the market saw Glaxo Wellcome reverse Tuesday's strong gains that followed positive news on Epivir, the group's anti-HIV drug. The shares gave up 27½ to 884p.

A two way pull in Scottish Power brought turnover of 2m as the shares closed unchanged at 311p after the agm.

National Grid was in demand and the shares hardened 1½ to 171½p. Volume at the close was 1.9m.

W H Smith held at 471p, putting on a resolute performance in the face of a sliding market. ABN-AMRO Hoare Govett upgraded its forecast for 1997 from £120m to £125m.

FINANCIAL TIMES EQUITY INDICES

	Jul 24	Jul 23	Jul 22	Jul 19	Jul 18	Yr ago	*High	*Low
Ordinary Share	2692.8	2713.4	2696.7	2717.9	2700.4	2588.2	2865.2	2668.8
Ord. div. yield	4.21	4.14	4.17	4.14	4.13	4.11	4.17	3.76
P/E ratio net	15.82	16.21	16.10	16.24	15.97	16.24	17.25	15.80
P/E ratio nil	15.76	16.09	15.99	16.13	15.88	15.87	17.03	15.71

Ordinary Share index since compilation: high 2865.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2692.6	2685.9	2683.2	2685.5	2679.7	2681.9	2680.4	2677.1	2685.7	2694.0	2674.2

	Jul 24	Jul 23	Jul 22	Jul 19	Jul 19	Yr ago
SEAQ bargains	26,486	25,479	26,762	27,014	24,019	24,097
Equity turnover (£m)†	-	1376.1	1325.5	1667.3	1638.6	1720.2
Equity bargains†	-	29,132	29,783	33,832	29,494	34,239
Shares traded (m)†	-	496.9	462.4	567.9	540.6	631.8

†Excluding intra-market business and overseas turnover.

	Jul 24	Jul 23	Jul 22	Jul 19	Jul 18	Yr ago	*High	*Low
FT-SE AIM	1048.40	1065.20	1051.50	1057.70	1045.30	-	1140.40	985.70

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	157	Total Highs	15	Total contracts	54,836
Total Falls	1,324	Total Lows	120	Calls	16,556
Same	1,232			Puts	38,280

Jul 24 *Data based on Equity shares listed on the London Share Service.

FT-SE-A All-Share Index

Equity shares traded

Indices and ratios

Best performing sectors

Worst performing sectors

FUTURES AND OPTIONS

LONDON RECENT ISSUES: EQUITIES

FT GOLD MINES INDEX

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■ FT-SE Actuaries All-Share

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

TRADING VOLUME

■ Major Stocks Yesterday

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 24 / Sch)

		+/-	High	Low	Yld	P/E
AusAir	1,498	-31	1,980	1,498	3.3	—
BkAust	841	...	1,097	772.20	1.2	—
BkAuPf	431	-1	492.05	415	2.3	—
BUAG	794.80	-8.40	935	680	3.1	—
BrauIn	620	-2.50	717	480	3.7	—
Credit	660	...	760	479	1.5	—
CredPf	478.50	-1.35	551	430	2.1	—
EA Gen	2,925	-35	3,775	2,550	0.5	—
EVN	1,403	-25	1,629	867.35	1.8	—
Jenbac	1,911	+1	1,965	1,455	5.2	—
Lenzng	676.50	-3.50	982	638	1.6	—
Leykam	302.50	-3.20	400	264	7.9	—
Mayr-M	435	-3.10	687	418	3.1	—
OMV	960	-11	1,126	600	2.1	—
Oest B	620	+1	644	440	2.7	—
PerlZm	700	+25	870	684	2.9	—
RadexH	301.90	-5.10	387	289	4.5	—
SteyrD	167	-4	200	134.18	3.6	—
Univ O	450xd	...	535	388	1.1	—
VA Tec	1,285	-32	1,454	1,072	2.2	—
VoestA	775	-4	855	572	2.1	—
VoiAir	600	-17	788	533	1.8	—
VA St	325	-4.50	387	282	—	—
Wienbg	1,941	-29	2,762.5	1,850	2.2	—

BELGIUM/LUXEMBOURG (Jul 24 / Frs.)

CZECH REP (Jul 24 / Korun)

DENMARK (Jul 24 / Kr)

FINLAND (Jul 24 / Mk)

FRANCE (Jul 24 / Frs.)

GERMANY (Jul 24 / Dm.)

GREECE (Jul 24 / Drachma)

ITALY (Jul 24 / Lire)

NETHERLANDS (Jul 24 / Fls.)

NORWAY (Jul 24 / Kroner)

POLAND (Jul 24 / Zloty)

PORTUGAL (Jul 24 / Escudo)

SPAIN (Jul 24 / Pts.)

SWEDEN (Jul 24 / Kronor)

SWITZERLAND (Jul 24 / Frs.)

TURKEY (Jul 24 / TK Lira)

PACIFIC

JAPAN (Jul 24 / Yen)

HONG KONG (Jul 24 / H.K.$)

INDONESIA (Jul 24 / Rupiah)

MALAYSIA (Jul 24 / MYR)

NEW ZEALAND (Jul 24 / NZ $)

SINGAPORE (Jul 24 / S$)

AUSTRALIA (Jul 24 / Aus$)

SOUTH KOREA (Jul 24 / Won)

TAIWAN (Jul 24 / T$)

THAILAND (Jul 24 / Baht)

AFRICA

SOUTH AFRICA (Jul 24 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jul 24 / Can $) 4 pm close

MONTREAL (Jul 24 / Can $) 4 pm close

INDICES

US INDICES

■ RATIOS

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ S&P 500

■ Nikkei 225

DEX FUTURES

■ CAC40

■ FTSE FREE ANNUAL REPORTS SERVICE

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, July 24, 1996

	Stocks Traded	Closing Prices	Change on day
NEC Corp	3.4m	1080	-30
Kobe Steel	3.4m	282	
Nippon Stl Corp	3.4m	338	-6
Nomura Secs	2.6m	1860	-60
Shizuoka Bank	2.6m	1240	-60
NKK Corp	2.5m	292	-9
Toyota Motor	2.5m	2440	-40
Sumitomo Mtl Ind	2.5m	300	-6
Matsushita E Ind	2.3m	1850	-30
Hitachi	2.2m	970	-10

NEW YORK STOCK EXCHANGE PRICES

4 pm close July 24

1996 High	1996 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23¼	17¾	AAR	0.48	2.5	18	218	19⅛	18⅞	18⅞	-⅛
46⅛	35⅛	AMP	1.00	2.7	18	5815	36⅝	36¼	36½	-⅛
97½	68	AMR			15	8890	78¼	76¼	77¾	-1¼
50½	37¾	ASA	1.08	4.7	25	300	38½	38¼	38⅜	-⅜
45¼	30⅛	AbbotL x	0.96	2.2	18	9474	43⅞	42¼	43¼	+⅛
17¼	12¼	Abitibi Pr	0.40	3.1	8	428	12⅞	12⅝	12¾	-⅛
40⅜	27	ABM Ind	0.70	1.0	10	167	36⅞	36⅝	36¾	
10⅝	13⅞	Acpincoln			45	100	17⅞	17⅛	17½	-⅛
60⅜	37¾	ACE Ltd	0.56	1.3	10	1425	43⅝	42¾	43⅝	+¼
9⅞	8½	ACM Gvt In	0.80	9.2	8	128	u9⅞	9¾	9¾	
7⅞	6⅝	ACM GvOpp	0.57	8.1		19	7	7	7	
7¼	0	ACM Gvt Sp	0.88	10.2		361	0⅞	0½	6½	
9⅛	6¼	ACM Gvt Se	0.90	10.4		2115	0⅝	8½	8⅝	
9½	8⅜	ACM Mun	0.80	10.1		340	8⅞	8⅝	8⅞	+⅛
13⅞	6⅛	Acme Elect			36	120	7⅛	6⅞	7	-⅛
33¾	27¼	Acordia	8.80	2.6	10	27	31¼	30	31	-⅛
21⅛	19	Acuson			58	1128	13⅛	13	13	-¼
19½	17⅞	Adams Expr	0.48	2.7	9	465	18⅛	d17⅞	17⅞	-⅛
21¼	10¼	AdvMic			0	8958	10¼	d10¼	10⅝	-⅛
11¼	8½	Advest Grp	0.10	1.7	8	123	9¼	8¼	9¼	-⅝
26⅛	9⅛	Adtiq Inc	0.10	1.1	52	77	9⅝	9¼	8½	
50⅜	41⅛	Aegon	1.19	3.6	13	37	42¾	42¼	42½	-1⅛
[illegible]	[illegible]	[illegible]			3	371	4⅞	4⅝	4¾	-⅛

[illegible]

- B - [illegible]

- C - [illegible]

- D - [illegible]

- E - [illegible]

- F - [illegible]

- G - [illegible]

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Continued on next page

4 pm close July 24

NYSE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close July 24

AMEX PRICES

4 pm close July 24

AMERICA

Bargain hunters calm Dow's early wild ride

Wall Street

The US equity market gave investors another wild ride yesterday as declines on international markets and worries about technology stocks rattled investors, *writes Lisa Bransten in New York.*

A sharp early sell-off on the technology-rich Nasdaq composite spilled over to blue chip shares in the Dow Jones Industrial Average, which tumbled 76.20 points in the first half hour of trading. But the sharp decline, which was yet another step lower in a month that has knocked about 375 points off the blue chip average, brought in bargain hunters who sent the index up nearly 33 points near noon.

By 1 pm the Dow had settled between its extremes for the session with a gain of 7.40 at 5,353.95. Trading was also choppy on the more broadly based Standard & Poor's 500, which was posting a loss of 0.71 at 626.16 at 1 pm. The American Stock Exchange composite was 6.42 lower at 530.54. NYSE volume came to 296m shares.

The Nasdaq composite initially appeared to be staging a repeat performance of its near-record breaking losses as it fell 31.43 in the first moments of trading. Bargain hunting moved the index briefly into positive territory, but by early afternoon it was off 6.93 at 1,042.14.

It was a day of sharp swings even for the largest technology companies. IBM, which is a component of the Dow, fell $1 near the opening, but by early afternoon it was $1⅞ stronger at $91⅞. Microsoft fell nearly $3 in early trading before recovering to hold a gain of $1⅞ at $114.

Even high-flying shares – many of which were off sharply for the month – managed to recover from yesterday's early weakness. Iomega added $⅝ at $16⅝. Netscape Communications rose $1⅞ at $43⅞ and US Robotics gained $3⅞ at $66⅞.

One factor boosting technology shares was a strong second quarter earnings report and a positive outlook from Compaq Computer. Shares in the computer maker added $2⅞ at $48 after it posted earnings of $1.03 a share, 12 cents ahead of analysts' estimates.

Canada

Toronto stumbled further as high-technology stocks took another hit in North America. The TSE-300 composite index was 35.19 down by midsession at 4,883.40, up from an opening low of 4,871.54, but in relatively weak volume of 27.6m shares.

Bank stocks were actively traded, with Toronto-Dominion Bank 10 cents lower at C$25.95.

Potash Corp fell C$2.75 to C$94 in light trading as an improvement in its second-quarter earnings failed to match expectations.

SOUTH AFRICA

Johannesburg's industrials followed Wall Street down, in the absence of local factors to influence direction, and golds fell in sympathy, in spite of current rand weakness and a largely stable bullion price. The overall index dropped 124.0 to 6,626.5, industrials fell 147.8 to 7,819.7 and golds slipped 41.2 points to 1,760.5. De Beers dropped 450 cents to R142.75, Amic shed 650 cents to R154.50 and SA Breweries slipped 375 cents to R121.

EUROPE

Long awaited rate cut fails to lift Milan

The long awaited reduction by the Bank of Italy of official interest rates, announced after the market closed on Tuesday, failed to save MILAN as sharp falls elsewhere in Europe, and Wall Street's early decline, proved more persuasive.

The Comit index fell 6.97 to 609.27 while the real time Mibtel index was 184 lower at 9,881.

Mediaset, the television and advertising group which was listed on Monday last week, continued its downward spiral, taking the shares below their L7,000 offer price. The stock, which rose to a high of L7,745 last Thursday, fell L220 to L6,849 in volume of 14.7m.

Goldman Sachs, which initiated coverage of the stock, set a target price of L6,200, reflecting a number of concerns including the impact of the media bill, currently before parliament, which, in its current form, could sharply reduce future earnings.

Eni, the energy group, fell L208 to L6,691, and Olivetti was L28.3 lower at L757.3 ahead of a conference call with analysts last night to discuss first half results from the troubled personal computer business.

FRANKFURT ended above its worst as Wall Street came off the bottom, the Dax index closing 29.69 lower at an Ibis-indicated 2,459.13.

Turnover was DM8bn. Share price falls were futures-led, said Ms Barbara Altmann at B Metzler in Frankfurt, with little sign of investor selling pressure at this stage. There was profit-taking among the share price successes of the year: Adidas, the sports wear group, dropped DM4 at DM116, and in chemicals BASF shed DM1.30 at DM39.38.

Profit-taking combined with a reaction to share price losses in US high tech stocks to leave preferred shares in the software maker, SAP, down by DM10.50, or 4.8 per cent to DM207.50; a sense of foreboding in retailing, with diminishing prospects of a consumption recovery, left Karstadt down DM10.55 at DM529.55 while Germany's new shopping giant, Metro, fell DM4.90, or 3.5 per cent to DM134.60.

PARIS closed above its session lows as the Dow cut its losses, the CAC-40 index ending down 28.12 at 1,954.10.

Turnover was FFr7.8bn, fattened up by a number of large block trades; these included 888,000 shares in Alcatel Alsthom, which shed FFr8.20 at FFr387, and 533,000 in Lagardere which closed FFr3.60, or 3.1 per cent lower at FFr120.50 on news that the British government had delayed an important missiles order.

Euro Disney continued its decline, off another 50 centimes at FFr11.60 after a 14 per cent drop in third quarter net income on Tuesday, which was followed yesterday by broker earnings downgrades.

AMSTERDAM seemed demoralised by the US equity market's losses, posting a fall of over 3 per cent before closing with the AEX index down 12.61 at 512.80.

Early enthusiasm for a slim profits rise at Polygram, the Philips music and film subsidiary, evaporated to leave the stock 80 cents lower at Fl 87.80, after Fl 91. However, there was worse: a downgrade from outperform to neutral for Baan by the New York office of Morgan Stanley left the software company's shares down Fl 9.40, or 17 per cent at Fl 45.90.

ZURICH took a sharp tumble as Wall Street's weak opening piled pressure on to an already bearish market. The SMI index fell 102.6 to 3,468.6 in higher volume than seen in recent sessions, although some analysts said that the day's fall was an overreaction that could not be justified by the fundamentals.

Some recent winners were among the day's sharpest losers. In pharmaceuticals, Roche certificates fell SFr345 to SFr8,780. But Nestlé held up better than many stocks, slipping SFr22 to SFr1,360.

Swissair, boosted by top management changes earlier in the year, gave up SFr47 to SFr1,093 as details of its first half load factor proved a disappointment.

SMH, which had taken full advantage in recent weeks of its involvement with the Atlanta Olympics, was marked SFr37 lower at SFr786.

STOCKHOLM's banking sector held up well, losing only 0.1 per cent, but traders took lumps out of its market heavyweights as the Affärsvärlden General index closed 40.7, or 2.2 per cent lower at 1,845.1.

Ericsson, the telecoms group, slipped SKr5.50 to SKr122.50, reflecting the recent weakness in US high tech stocks. In pharmaceuticals, Astra A fell SKr7 to SKr262.50 while Pharmacia & Upjohn, with two-thirds of Volvo's stake on sale, lost SKr6 at SKr260, Volvo itself closing only SKr1 lower at SKr133.50.

MADRID saw Santander fall only Pta40 to Pta6,000 after the bank reported a 13 per cent increase in first half profits, and Tabacalera rise Pta130 to Pta6,590, although there were suspicions that the tobacco giant was being supported ahead of its forthcoming privatisation. The general index fell 4.22 to 351.37 in turnover of Pta32bn.

Written and edited by William Cochrane and Michael Morgan

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Jul 24 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1596.69	1600.76	1600.47	1597.49	1599.62	1593.84	1590.22	1584.45
FT-SE Eurotrack 200	1645.33	1651.12	1652.12	1648.30	1647.59	1646.08	1641.82	1643.51

	Jul 23	Jul 22	Jul 19	Jul 18	Jul 17
FT-SE Eurotrack 100	1612.52	1618.08	1638.47	1631.33	1624.61
FT-SE Eurotrack 200	1668.90	1681.06	1690.30	1671.28	1663.77

Base value 1000 (26/10/90). [illegible]

THE DAY'S FALLS

	% Change
Zurich	-2.9
Amsterdam	-2.4
Helsinki	-2.4
Stockholm	-2.2
Milan	-1.9
Paris	-1.4
Madrid	-1.3
Frankfurt	-1.2

Mexico tumbles 1.1% at midsession

Mexico City tumbled at the opening, along with markets around the world which took their lead from Wall Street and, by midsession, shares remained weak in spite of the stronger performance of the Dow Jones Industrial Average. The IPC index fell 33.67 or 1.1 per cent to 2,969.42.

Telmex fell 22 centavos to 11.66 pesos, after Tuesday's announcement thet net earnings fell 44.9 per cent.

BUENOS AIRES was rattled by the fresh bout of selling in leading world markets and by noon the Merval index, down 3.5 per cent in the previous two sessions, was 6.38, or 1.2 per cent lower at 534.72.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms July 19 1996	Dollar terms % Change over week	Dollar terms % Change on Dec '95	Local currency terms July 19 1996	Local currency terms % Change over week	Local currency terms % Change on Dec '95
Latin America	(247)	530.78	-0.9	+12.5			
Argentina	(31)	855.08	-2.0	+6.8	523,930.76	-2.0	+6.6
Brazil	(68)	375.92	-2.6	+23.1	1,417.04	-2.4	+27.6
Chile	(43)	746.51	-0.4	-0.4	1,225.91	-0.7	+0.5
Colombia[1]	(15)	589.21	-1.3	-1.5	1,107.37	-1.2	+5.5
Mexico	(64)	510.04	+1.8	+12.5	1,673.64	+1.5	+11.2
Peru[2]	(21)	219.81	-1.5	+11.4	327.75	-1.7	+18.0
Venezuela[3]	(5)	483.80	-4.4	+44.7	5,236.35	-4.3	+100.6
Asia	(832)	259.59	-0.4	+11.8			
China[4]	(24)	56.72	+1.9	+8.5	61.64	+1.9	+8.5
South Korea[5]	(145)	106.76	+0.3	-15.2	114.23	+0.3	-11.0
Philippines	(35)	318.78	+0.4	+22.8	403.44	+0.4	+22.7
Taiwan, China[6]	(83)	141.74	-0.1	+25.7	146.63	-0.1	+26.9
India[7]	(76)	100.38	+0.9	+24.9	126.93	+1.4	+26.5
Indonesia[8]	(44)	118.17	+0.5	+7.7	149.66	+0.4	+9.8
Malaysia	(123)	318.20	-0.6	+17.7	293.24	-0.7	+15.4
Pakistan[9]	(25)	265.93	-5.7	+9.8	426.85	-5.5	+13.2
Sri Lanka[10]	(5)	94.08	-3.4	-9.8	113.69	-3.3	-6.0
Thailand	(72)	330.22	-2.0	-12.1	331.79	-2.4	-11.7
Euro/Mid East	(238)	140.84	-0.3	-0.7			
Czech Rep	(5)	72.47	-0.1	+20.8	64.62	-1.8	+21.5
Greece	(47)	246.66	+0.1	+2.1	393.79	-1.4	+1.7
Hungary[11]	(8)	164.06	-2.0	+66.7	294.36	-2.9	+81.9
Jordan	(8)	167.26	+2.7	-9.4	249.91	+2.7	-9.3
Poland[12]	(22)	681.49	-3.2	+59.8	1,161.41	-3.8	+75.4
Portugal	(26)	131.31	+2.5	+13.4	138.13	+0.3	+16.2
South Africa[13]	(63)	230.88	+0.6	-10.5	209.26	+0.0	+7.7
Turkey[14]	(54)	142.77	-5.2	+36.6	5,606.73	-5.0	+87.6
Zimbabwe[15]	(5)	370.39	-0.0	+34.8	539.57	-0.1	+43.1
Composite	(1117)	299.99	-0.5	+8.8			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 4 1991; (6)Nov 5 1992; (7)Sep 28 1990; (8)Mar 1 1991; (9)Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993.

Investors returned in force to emerging markets during the first six months of the year, lured back by the increasing popularity of privatisations in many regions, according to a review by an Kleiman International, a Washington-based independent analyst, writes Michael Morgan. This strong performance was a reversal of last year's disappointing course, says Ms Elizabeth Morrissey of Kleiman.

It was led by strong advances in central and eastern Europe on continued post-transition economic recovery and the development of the infrastructure in many markets. At the same time, renewed confidence emerged in much of Latin America, 18 months after the Mexico crisis. However, would-be buyers remain discriminating, says Ms Morrissey. "Investors continue to be increasingly vigilant in assessing macro-economic and currency issues as they explore new markets and instruments," she says.

Russia led all the markets higher, closing the half year up by more than 130 per cent in dollar terms, and 150 per cent in the local currency, as President Boris Yeltsin won the first round of the country's elections and as domestic investors increased equity exposure in response to volatility in the debt markets. Hungary, up 77.8 per cent, was the best performer of the leading IFC tracked markets as the country was granted investment grade ratings by several rating agencies. In the IFC's southern Europe division, Turkey, 42.1 per cent higher, put in a good showing in spite of political turmoil and a lack of economic reform efforts as another government was replaced. Venezuela led a strong showing by Latin American markets with a 51.2 per cent increase after it devalued its currency and reached agreement with the IMF. In Asia, Taiwan recorded the strongest gain, up 33.1 per cent on the re-election of President Lee while Zimbabwe was the best performer in Africa, rising 35 per cent as local and foreign investors took advantage of low prices and as treasury bill yields fell steadily.

ASIA PACIFIC

Nikkei falls 2.5% on Shizuoka Bank fears

Tokyo

More foreign selling, weakness on Wall Street overnight and renewed rumours of a huge trading loss at Shizuoka Bank took the Nikkei average to its biggest loss of the year, *writes Our Markets Staff.*

The 225 index fell 532.66, or 2.5 per cent to 20,631.03 although volume thinned further, from 310m shares to 273m. Foreign investors had placed selling orders for 23.7m shares through 10 foreign securities houses before the start of trading, against 15.5m of buys, making a net selling stance of 8.2m shares.

There were also lingering expectations that a credit tightening by the Bank of Japan was in the offing. The Topix index of all first section stocks fell 27.99 to 1,561.71, and the Nikkei 300 by 5.36 to 291. Declines overwhelmed advances by 1,016 to 91 with 113 unchanged.

In London,the ISE/Nikkei 50 index was down 0.54 at 1,389.75.

Banks were mostly weaker but Shizuoka, the fifth most active stock of the day, dropped Y60, or 4.6 per cent to Y1,240. There was renewed market speculation, denied by the bank after the close, that it might have suffered losses in trading of foreign bonds.

Blue-chip electronics, steel and financial shares suffered from the big sell-off by foreign investors. NEC, the day's most active issue, fell Y30 to Y1,080, Sony Y60 to Y6,700 and Nippon Steel Y6 to Y336.

The banking sector suffered a further blow from statements by leading life insurance companies that they were reluctant to buy the preferred stocks which many banks were expected to issue this year. Industrial Bank of Japan dropped Y60 to Y2,400 and Sumitomo Bank was off Y50 at Y1,960.

Nippon Life and Dai-Ichi Mutual Life, Japan's two biggest life insurers, said that they had urged major Japanese banks to shrink their assets as a means of boosting their capital before resorting to issuing preferred shares.

The life insurers' statements suggested that traditional cross-shareholding ties between Japanese companies would continue to unravel, which could damage the stock market.

In Osaka, the OSE average fell 246.95 to 21,973.35.

Roundup

The region's worst fall was in MANILA which dropped 3 per cent, the composite index coming in 94.74 lower at 3075.38 in volume of 8.04bn shares worth 2.53bn pesos.

Ayala Land fell 2.50 pesos to 45.50 in 3.24m shares, while PLDT was off 15 at 1,550 in 70,858 after overnight losses in Wall Street. Meralco B shares were off 9 at 198 in 294,760 shares on talk of almost flat second quarter earnings.

BOMBAY remained depressed by Monday's budget proposals and share prices added to Tuesday's 3.8 per cent tumble with another of x.x per cent. The BSE-30 index fell to xxxx.xx as investors offloaded shares of companies likely to be hit by the introduction of a 12.9 per cent minimum tax provision.

KARACHI fell 1.9 per cent on short selling by speculators and a lack of institutional support. The KSE-100 index finished 28.86 lower at 1,525.16.

The state-run Pakistan State Oil fell Rs10 to Rs18 after the government's decision on Tuesday to cut prices of petroleum products by between 1 per cent and 8 per cent.

SYDNEY's All Ordinaries index fell 22.1 to 2,113.9 as the market digested higher than expected June quarter inflation figures and the share price tumble in Tokyo.

News Corp attracted more heavy selling, ending 20 cents down at a 16-month low of A$6.05 on citing nervousness over debt levels.

The shale oil twins, Southern Pacific Petroleum and Central Pacific Minerals, slumped 31 cents to A$1.45, and 50 cents to A$3.80 on the Australian government's abolition of tax concessions for research and development.

HONG KONG followed Tokyo down and the Hang Seng index dropped 165.45 to 10,699.86 in turnover that edged up to HK$3.9bn.

Properties shares posted some of the biggest losses. Henderson Land fell HK$1.00 to HK$55.00 and Cheung Kong HK$1.50 to HK$52.75.

Shares in Vtech fell 65 cents to HK$14.15 after Peregrine Investments said that it had sold 31.5m shares at HK$14.10.

Shares in Vitasoy International rose 20 cents to HK$2.675 on expectations tht its profits would recover after a massive recall of contaminated soft drinks hurt 1995/96 earnings.

SINGAPORE fell to another low for the year as the Straits Times Industrials index dropped 32.34 to close at 2,137.13, breaking through support at the 2,150 level.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JULY 23 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JULY 22 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (80)	193.61	-0.7	185.26	132.29	150.10	182.96	-0.8	4.43	195.24	186.76	132.79	150.89	184.20	212.18	177.95	180.98
Austria (24)	177.99	-0.4	170.15	121.46	137.85	137.78	0.3	2.04	177.24	169.53	120.73	137.05	136.96	198.68	166.11	186.48
Belgium (27)	208.84	-0.2	199.74	142.56	161.82	158.21	0.0	4.21	209.39	200.29	142.55	161.80	158.20	215.81	186.06	187.21
Brazil (28)	178.43	-0.4	170.57	121.78	138.18	330.90	-0.4	1.97	179.20	171.42	122.00	138.47	332.27	189.70	123.97	137.57
Canada (122)	155.21	-1.4	148.37	105.91	120.20	154.12	-1.2	2.32	157.48	150.61	107.19	121.67	155.95	166.12	134.14	147.33
Denmark (30)	308.02	-0.2	294.48	210.18	238.55	240.66	0.0	1.81	308.63	295.23	210.11	238.48	240.66	309.34	276.89	283.85
Finland (23)	101.83	-0.1	183.39	130.91	148.57	182.29	0.1	2.74	191.92	183.59	130.66	148.30	182.14	276.11	171.73	249.69
France (96)	169.42	0.7	161.08	129.26	146.70	148.82	0.9	3.22	188.12	179.95	128.07	145.36	148.45	198.39	167.70	186.03
Germany (59)	170.02	-0.5	162.53	116.02	131.67	131.67	-0.2	1.69	170.81	163.39	116.28	131.98	131.98	174.38	155.66	164.67
Hong Kong (59)	419.82	0.2	401.33	286.48	325.14	416.89	0.2	3.49	418.96	400.76	285.22	323.73	416.03	451.19	348.61	369.06
Indonesia (27)	204.43	-0.5	195.43	139.50	158.33	291.96	-0.5	1.58	205.43	196.50	139.85	158.76	293.51	-	-	-
Ireland (16)	272.84	-0.7	260.84	186.05	211.18	238.61	-0.7	3.60	274.45	262.53	186.84	212.07	240.18	280.82	235.88	239.49
Italy (58)	78.32	0.2	74.87	53.44	60.66	88.55	0.7	2.60	78.14	74.74	53.19	60.38	87.95	84.53	67.22	78.22
Japan (481)	149.24	0.3	142.67	101.84	115.58	101.84	0.5	0.75	148.83	142.37	101.32	116.00	101.32	164.66	137.75	150.37
Malaysia (107)	548.68	-0.3	524.71	374.55	425.09	528.05	-0.3	1.70	550.46	526.55	374.75	425.34	527.67	585.09	425.77	544.93
Mexico (18)	1161.64	0.1	1100.83	785.80	891.84	9570.53	-0.4	1.39	1150.90	1100.91	783.52	889.31	9605.50	1325.65	791.99	1182.79
Netherland (19)	285.91	-0.1	273.32	195.10	221.43	218.09	0.1	3.31	286.08	273.65	194.76	221.06	217.83	299.69	245.79	259.33
New Zealand (15)	80.82	-0.1	77.28	55.15	62.59	61.69	0.2	4.38	80.87	77.36	55.05	62.49	61.75	84.71	75.94	83.73
Norway (35)	250.72	0.4	239.68	171.09	194.17	217.95	0.6	2.06	249.70	238.86	169.99	192.95	216.63	256.94	222.24	236.75
Philippines (22)	208.07	-1.6	198.91	141.98	161.14	271.52	-1.6	0.60	211.45	202.26	143.95	163.39	276.03	-	-	-
Singapore (44)	391.75	-0.8	374.50	267.33	303.40	255.99	-0.8	1.48	394.71	377.57	268.71	305.00	258.20	465.21	355.81	387.30
South Africa (44)	345.48	-1.5	330.26	235.75	267.56	334.59	-0.1	2.22	349.01	333.85	237.60	269.68	336.02	437.76	339.16	344.37
Spain (37)	176.04	0.3	168.29	120.13	136.34	168.21	0.7	3.47	175.54	167.92	119.51	135.64	166.99	183.65	145.15	152.33
Sweden (48)	340.91	-0.2	325.90	232.64	264.03	332.10	-0.5	2.57	341.77	326.92	232.67	264.08	335.68	360.77	280.13	283.04
Switzerland (37)	241.49	0.3	230.86	164.76	187.03	161.56	0.6	1.63	240.81	230.35	163.94	186.07	160.51	252.34	191.24	201.64
Thailand (45)	156.37	-0.4	148.53	106.03	120.33	152.45	-0.4	2.17	155.94	149.18	106.16	120.49	153.06	193.95	146.74	172.98
United Kingdom (199)	233.05	0.8	222.78	159.03	180.49	222.78	0.7	4.21	231.30	221.26	157.46	178.73	221.25	237.48	216.52	220.27
USA (626)	255.01	-1.1	243.78	174.02	197.50	255.01	-1.1	2.32	257.85	246.65	175.54	199.24	257.85	276.47	225.96	225.96
Americas (792)	233.45	-1.1	223.17	159.30	180.80	196.31	-1.1	2.31	236.05	225.76	160.70	182.40	198.48	252.43	207.38	207.38
Europe (708)	207.65	0.3	198.50	141.70	160.82	176.96	0.4	3.16	206.99	198.00	140.92	159.94	176.29	213.30	189.33	194.30
Nordic (136)	297.13	-0.1	284.05	202.76	230.12	253.81	-0.2	2.43	297.56	284.63	202.57	229.92	254.33	306.61	261.13	272.64
Pacific Basin (880)	161.95	0.2	154.72	110.45	125.35	112.73	0.3	1.22	161.59	154.57	110.01	124.86	112.34	177.01	148.86	160.97
Euro-Pacific (1598)	180.82	0.2	172.86	123.39	140.04	137.95	0.4	2.14	180.40	172.56	122.81	139.39	137.31	190.57	168.51	174.76
North America (748)	248.94	-1.1	237.98	169.87	192.80	248.34	-1.1	2.32	251.75	240.82	171.39	194.53	251.12	269.52	221.09	221.09
Europe Ex. UK (509)	188.88	0.1	180.56	128.89	146.28	153.67	0.3	2.59	188.72	180.53	128.48	145.83	153.20	194.86	169.65	175.71
Pacific Ex. Japan (399)	278.77	-0.3	266.49	190.23	215.90	240.39	-0.3	3.06	279.61	267.49	190.35	216.05	241.14	296.68	243.59	262.13
World Ex. US (1798)	181.96	0.1	173.94	124.17	140.92	142.28	0.3	2.14	181.69	173.80	123.69	140.40	141.82	191.55	167.36	175.66
World Ex. UK (2225)	201.62	-0.5	192.85	137.52	156.07	169.65	-0.4	2.02	202.51	193.71	137.87	156.48	170.59	213.05	185.61	188.06
World Ex. Japan (1943)	234.73	-0.8	224.40	160.18	181.78	221.24	-0.5	2.65	236.07	225.82	160.71	182.41	222.38	247.55	212.62	213.98
The World Index (2424)	204.26	-0.4	195.28	139.40	158.21	174.79	-0.3	2.22	205.05	196.14	139.59	158.44	175.21	214.95	188.49	190.88

Latest prices were unavailable for this edition.

Cinema/Nigel Andrews

Rough weather in Hollywood

Everyone who has visited Los Angeles knows that weather forecasting there is like a cracked record. "Warm, sunny, high 80s, possibility of smog," chant the seaweed-watchers every day, desperate for a new wrinkle in the algae. The occasional warm rain or once-yearly lightning flash only mocks the monotony. In response even the ground gets angry, throwing up all the heavy action that southern California never gets from the sky.

No wonder Hollywood is obsessed with rough weather. From the mind-set that gave us *Hurricane* (more than once) and *Rain* and *White Squall* comes *Twister*. This is a Spielberg-produced barnstormer about two rival meteorological safaris chasing tornadoes across the midwest.

The "good" science motorcade is led by Bill Paxton and his almost-divorced wife Helen Hunt. Will a last field adventure together save their marriage and dispatch the yuppie fiancée he has in tow (Jami Gertz), who squeals at every raindrop? The "bad" twister-hunters are led by Britain's Cary Elwes, sporting a mean American accent, and scowl from their fleet of black vans as they tack across cornfields trying to reach the skimmying grey vortices before Paxton and Co.

A twister, as you know, is a terrible thing. Like a summer blockbuster it weaves across the land, blocking out light and gobbling up people and their possessions. Then it flings them back to earth, poor in pocket and sometimes broken in spirit.

The effects are wondrous here: everything from broody sky palettes in green, grey or inky black to computer-designed whirlwinds that pick up cows, gas tankers and houses and fling them across the skies like haystalks. The sound, too, is awesome. It starts at the back of the theatre, passes throbbing under your seat and then explodes on screen.

But – and it is a large but, as large as Kansas – could we not have had a plot and characters too? A Michael Crichton script sounds like a quality guarantee, but instead we get *Jurassic Park*'s characters reheated, or rather puréed, into an all-purpose compote of honest scientists, screaming dames and hippyish back-up boffins. Crichton's dialogue is worse. Seeing her man dashing off into the fray, Gertz says she knows that he has always gone on about chasing tornadoes but "Deep down I always thought it was a metaphor".

The operative lunacy in this sentence is "deep down". No one has a "deep down" in this *Dramatis Personae*. Each character is a set of programmed positions – the idealist, the cynic, the urbanite who has lost touch with nature – who can change conveniently into human chaff for the action sequences. Director Jan *Speed* De Bont made his debut with a film in which a bus had more character than the humans. But at least the humans were not vapid enough to be distracting.

TWISTER
Jan De Bont

DENISE CALLS UP
Hal Salwen

RAINBOW
Bob Hoskins

GODFATHER II
Francis Coppola

Here the characterisation is worse than perfunctory, it is patronising. Secure in the knowledge that its effects alone will pull in the crowds – almost $200m at the box office to date – the film is secure, too, in the impunity with which it can make everyone on screen a walking cliché, promoting threadbare inanities about the frontier spirit versus the hissable rise of the urban technophile.

*

Denise Calls Up follows *The Truth About Cats As Dogs* as the month's second American light comedy to feature telephone sex. Earlier this year there was an entire feature on the subject, Spike Lee's *Girl 6*. What ever is going on? In the virus-obsessed mid-1990s – don't touch, don't feel (not if you want to live) – are we all expected to stimulate each other via BT or AT&T?

In this funny, low-key character octet by first-time writer-director Hal Salwen, Aids is not the only incentive to isolation. Frank, Jerry and Martin are all work-at-homes welded to their computers. Gale and Barbara turn their mobile phones into mobile offices, driving across New York arranging parties that will never happen. (No men and few women will leave home for one.) And a scatterbrained stranger called Denise rings a bemused Martin to tell him she is pregnant with his sperm-donor'd baby, and though she may never meet the father she can at least burn up his time on the phone.

The joke is that every hallowed form of human communion now has its telephone surrogate. Sex? Lie back and exchange fantasies across the ether. Parties? Accept all incoming calls and make merry with the hold button. Parentage? Christen your child in six minutes at local call rates.

Famous sayings, too, undergo mutation. "Slam bang, thank you, ma'am", that time-honoured mantra for brisk sex, has now become "Moan, groan, dial tone". And even death is helped along by Alexander Graham Bell. A leading character fatally crashes her car right in the middle of some Cellnet party-arranging. May that be a lesson to all who think that the steering wheel is a one-hand instrument.

The only time in movie history the telephone even approached so extensive a workout was in the 1950s, another epoch high on chastity. Back then Doris Day and Rock Hudson made love across a split screen, Hollywood's answer to the barrier method, and the closest that movies came to an aphrodisiac image was Anita Ekberg dandling a pink receiver in the effervescent bath foam.

In *Denise Calls Up* the deterrent is not morality but technology and T-cells. Meanwhile, in their own different cells Salwen's mutually sequestered cast creates a distinct world of cabin-fevered hopes, dreams and existential rhythms. (Invidious to pick out soloists, but Liev Schreiber's frazzled Jerry is as funny as Dan Gunther's charmingly manic Martin.) And the camera, never succumbing to claustrophobia itself, glides around its subjects with movements as subtle, smooth and sinisterly probing as a CAT-scan.

*

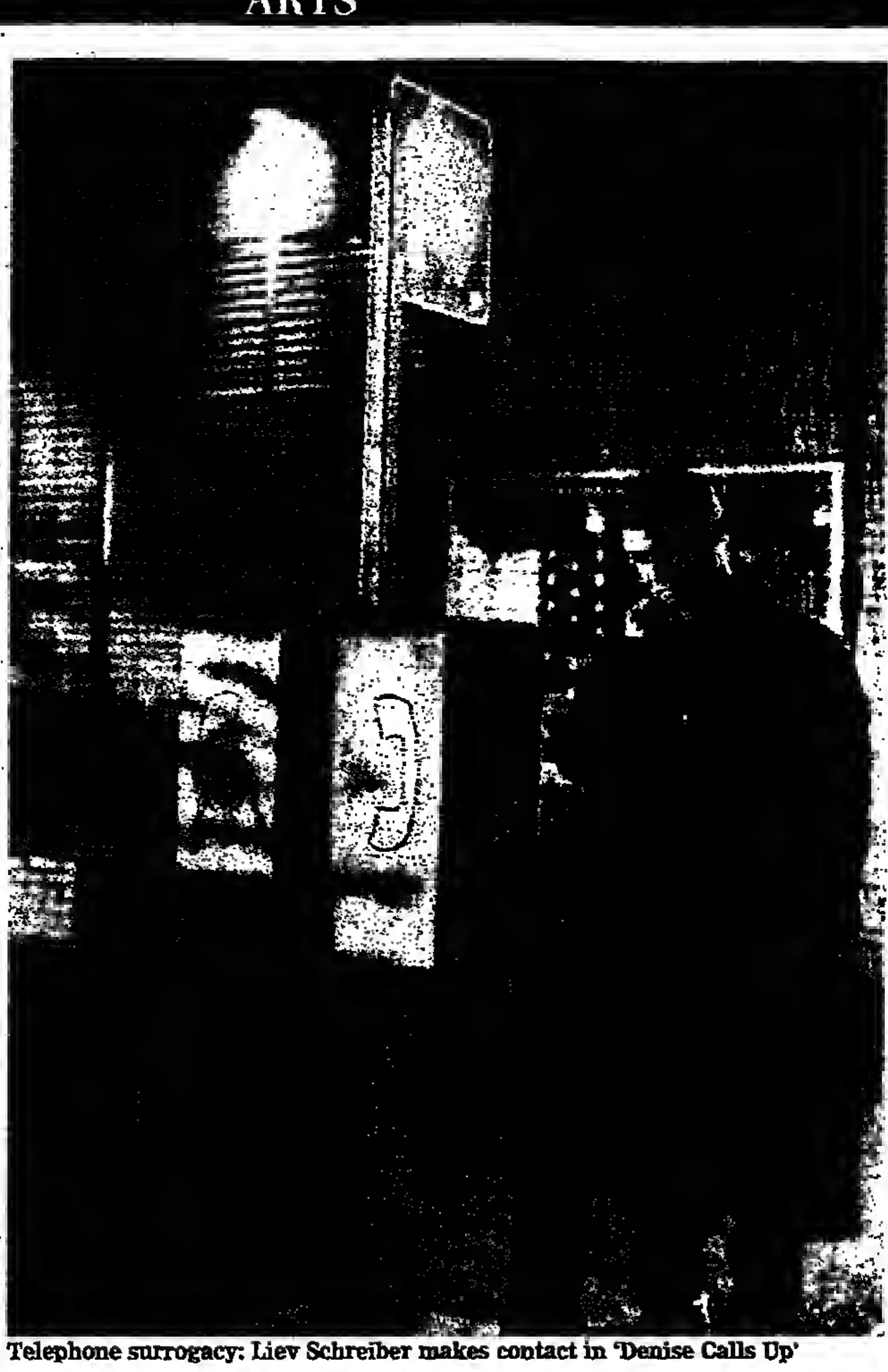
Not everything is lost to the telephone system, though *Rainbow* makes us wish that Bob Hoskins was. The man who pesters us nightly with the insistence that "It's good to talk" – the Gestapo once had the same message – evidently hung up his own BT receiver long enough to make this winsome, resistible children's film in High Definition Video.

Sorry, *Digital* High Definition. Sony insist on clarifying this techno-leap: one which means that instead of watching soft-edged images with trailing colours during pan shots and ugly overhead lighting (you can't light tape as you can celluloid), we now have only *slight* colour-trail, *slight* ugliness of lighting and occasional shots – mainly of a dog – that startle us with their hard focus.

I am suspicious of that dog. Does he exist? Or is he digitally composed? If he can be in dazzling focus in each close-up, why can't Bob Hoskins as a bearded old magician, Terry Finn as his daughter and Willy Lavandal as her 10-year-old son Mike, who disappears into space while searching for a rainbow? At this point the whole film goes into black and white, which is a big improvement; but not as much as this archly scripted, lumpily directed whimsy needed.

*

Godfather II is back, rescuing a problem week. No rainbows, no twisters, no comic set-pieces with telephones. Just three hours of enthrallment proving that a great film needs no gimmicks, only the pulse of believable human beings caught up in large and compelling human crises.



Telephone surrogacy: Liev Schreiber makes contact in 'Denise Calls Up'

Dance/Clement Crisp

A concerto for typewriters

After sitting through the latest outburst of Irish dancing – an evening at the Coliseum of Olympic-standard tedium – I must be excused for hoping that the jig will soon be up. *Lord of the Dance* is, I gather, a bid by the Irish dancer Michael Flatley to rival and outface *Riverdance*, that other display of side-of-beef torsos and clattering feet.

The current passion for jigging is hard to comprehend: clearly fun for the participants, it has all the variety of peas in a pod for the viewer. Yet it is being inflated – and nowhere more bloated than in *Lord of the Dance* – into a full-length spectacle, with its limited steps as sole choreographic material. Aurally it is a concerto for typewriters; visually it is myriad cats caught on the hop on the hottest of tin roofs; artistically it is a dead-end.

Lord of the Dance is dressed to kill – by boredom. Rock-show lighting; over-amplified sound (it is extraordinary how nasty two violins played by girls in plastic outfits and sensible shoes can be made to seem); a maudlin score; meccano scenery that has been badly frightened by the *Book of Kells*; a cohort of young men and women whose innocent manner palls after about three minutes: these are the ingredients. A risibly Celtic narrative of Good (Michael Flatley plus the occasional ringing of bells and an adrogynous horde of robed figures) against Evil (a group of neo-Nazi jiggers with a saucy colleen in red sequined dress and untamed hair) is stretched over two hours of devastating untheatricality.

Lights flash. Flatley does the Demon-King bit and disappears and re-appears through a trap-door. A soprano folk-singer comes heavily microphoned on in green as "Erin the Goddess" and looks more like Morticia Addams after a bad night. The girls wear tasteful pastel dresses and do-it-yourself hairstyles, and in a moment of erotic abandon reveal themselves in black tops and knickers designed for a sporting nun. The chaps seem numbed by it all – but maybe that is just their dancing-at-attention posture. A small woman in a gold tracksuit and cap behaves in a manner more elfin than one might suppose either possible or desirable. And feet clatter, tap, flash, stamp and shuffle with dazzling speed and monotony.

Michael Flatley is "the star" in a variety of macho outfits, and his feet do all of the above, only more so. I found him remarkably uninteresting. As a stage personality he is unnuanced; as a dancer he is a virtuoso in his chosen style, but the display is rigid. His choreography for the show is of the hand-knitted, dancing school variety, and unsurprisingly so: a jig, as Miss Stein so nearly said, is a jig is a jig.

That there is a public eager for such a show is undeniable – ecstatic response at Tuesday night's opening – but hard to explain except on terms of an eagerness for the synthetic and flashy.

Theatre/Ian Shuttleworth

Eloquence of 'Giovanni's Room'

James Baldwin's novel is rightly regarded as a 20th century gay classic. This stage adaptation, developed from a drama-school workshop led by director Maia Guest, lead actor Peter Gaitens and composer Simon Deacon, respectfully concentrates on lengthy sequences of dialogue; the story flows with the stateliness of the Seine through the Paris in which protagonists David, trying in vain to square the circle of his sexuality, loses both boy and girl.

Guest's notes speak of searching for "a rhythm, energy and eloquence" to match Baldwin's prose. Eloquence comes over in abundance, rhythm to a certain extent, energy only tenuously. Protracted scenes of duologue, usually between David and his lover Giovanni, are presented with reverence, linked by David's narrative monologues. Deacon's pervasive score of languid, smoky jazz, heightens the tone – David and Giovanni's first sexual encounter fades to darkness centre stage, while the piano, upright bass and singer Kristen Marks in the corner take up the strain with "In a Sentimental Mood".

Yet the overall impression is one of "atmosphere" in general, not of any atmosphere in particular. What Guest and her company do, they do very well, aided by the estimable though under-used presence of Bette Bourne as ageing, predatory queen Guillaume. Bourne spends some time sitting above the main action, looking indifferently down upon it; the climactic murder scene, with the antagonists locked on different levels, loses much of its power at the moment where Bourne unfortunately has to strangle himself.

The play's chance encounters and social gatherings are there mainly to intersperse the central sequence of scenes between David and Giovanni, and later between David and his fiancée Hella. Gaitens conveys the sense of detachment, or of unwillingness consciously to engage, of David: the dual status of protagonist and narrator. Ed Vassallo's Giovanni exudes from the first the sense of doom which he condemns Americans such as David for being unable to feel; but it is a slower, heavier feeling than is usual in drama – this is doom mediated through troubled, fragmentary memory. Guest's own portrayal of Hella as breezy and at least superficially self-assured is intentionally at odds with the shadows and secrecy around her.

The decision to insert an interval in the show does not dissipate the play's power, which remains primarily literary rather than theatrical in nature.

At the Drill Hall Arts Centre, London WC1, until August 3 (0171-637 8270).

Theatre/Alastair Macaulay

Benedict Arnold and a travesty of justice

As historical fiction goes, Richard Nelson's play *The General from America* promises well. Its hero, the real-life General Benedict Arnold, has usually been portrayed as a Judas for his effort to betray the American forces that he himself had successfully commanded (and George Washington to boot) – whereas Nelson sets out to make Arnold a man more sinned against than sinning.

At moments, this Arnold starts to remind us of Shakespeare's Antony, in thrall to Cleopatra (here his pretty little wife, Peggy) and in decline beside the rising star of Octavian (here Washington); at moments, he starts to remind us of Coriolanus, the heroic turncoat against the very side he once led so brilliantly. And the play's era, with its fascinating Anglo-American hostility between old-world colonials and new-world democrats, a subject most congenial to Nelson.

Yet *The General from America*, certainly as staged by Howard Davies for the Royal Shakespeare Company, is less clever than silly. Though there is a modicum of period decorum, we are asked to believe that the English commander-in-chief, Sir Henry Clinton – a xenophobic married homosexual – uses the f-word, and that Major John André, the actorly, snobbish and very unmilitary man with whom the commander-in-chief is in love, employs such constructions as "like you said it would". And to make Washington say "I said 'Who the hell wants a city named after them?'" is mere camp on Nelson's part.

Nelson tells his story clearly; he supplies a plausible framework of events that explains how Arnold could betray his cause and still have some mobility and heroism. But the more this hero reminds us of Antony or Coriolanus, the less tragic and interesting Nelson's portrait of him becomes. I speak from having just watched its premiere; I suspect that it might become a more serious drama in a better staging.

Too much of this production is simply botched. It begins with the least convincing stage hanging I have ever seen (after the noose remains loose). Several of the actors cast as leading military men seem never even to have done corps practice. Adam Godley, a sweet enough actor miscast as the handsome thespian, Major André, overdoes his fatuity in the crucial betrayal scene with Arnold. As a result, Arnold, handing over critical documents to this ninny, seems more stupid than Nelson intends him to be.

Almost all the American accents are phoney. Corin Redgrave's blustery George Washington, gesticulating like an Italian immigrant, might just pass muster in one of Arthur Miller's more working-class plays. Then there is the music, by Ilona Sekacz, which keeps stealing in to underline an important Bit but actually to undermine it, making key moments sound synthetic. (It is not bad music in itself; it just belongs elsewhere.) Davies lards scenes with noises off – Mrs Arnold wailing, Sir Henry wailing, baby Arnold crying.

James Laurenson does what he can to find dignity and human complexity in Arnold but the role is both over-written and under-written. Jay McInnes brings a heart-catching brightness to his wife Peggy. Nelson, whose umpteenth world premiere with the RSC this is, has been overrated as a playwright: clever but too campy in his artful doodlings with Anglo-American relations. Even so, he deserves better direction than Davies has given him. And so do we.

In RSC Repertory at the Swan Theatre, Stratford-upon-Avon.

INTERNATIONAL
ARTS
GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-5730573
● Traglomedia: sopranos Barbara Borden and *Suzie Le Blanc, alto Steve Dugardin*, tenor Douglas Nasrawi and bass Jelle Draijer perform songs by *Purcell*; 8.15pm; Jul 26

ATLANTA

EXHIBITION
High Museum of Art Tel: 1-404-733-4400
● Harry Callahan: an of 125 works by Atlanta photographer Harry Callahan; to Apr 6

POP-MUSIC
The Fox Theatre Tel: 1-404-881-2000/892 5685
● *Vince Gil*: part of the cultural programme of the Olympic Games '96; Jul 26

BERLIN

EXHIBITION
Berlinische Galerie – Martin-Gropius-Bau Tel: 49-30-254860
● *Noch nie gezeigt* – Aktuelle Positionen aus den Sammlungsbeständen der Berlinischen Galerie: exhibition of works from the museum's collection, *most of which were never before* shown to the public.
The majority of the works on display was recently added to the museum's collection. The show *includes, installations, paintings*, photographs, architectural drawings and designs; to Oct 13
Neue Nationalgalerie Tel: 49-30-2662662
● Georg Baselitz: large retrospective exhibition devoted to the work of Georg Baselitz. The display includes 100 paintings and 10 sculptures from European and American collections; to Sep 29

COPENHAGEN

EXHIBITION
Statens Museum for Kunst – Royal Museum of Fine Arts Tel: *45-33 91 21 26*
● Statens Museum for Kunst – 100 Years – 100 Masterpieces: to *celebrate the museum's centenary*, 100 of its masterpieces are *displayed in the various sections of the museum*; to Aug 1

EDINBURGH

EXHIBITION
Royal Museum of Scotland Tel: *44-131-2257534*
● Pride and Passion: an exhibition in *celebration of the life, times and* legacy of Robert Burns, on the occasion of the death of this Scottish poet 200 years ago; to Sep 15

LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● Alvaro Cendoya: the pianist *performs works by Handel*, Beethoven, Czerny and Falla: 7.30pm; Jul 26

DANCE
Royal Opera House – Covent Garden Tel: 44-171-2129234
● Swan Lake: a choreography by Petipa/Ivanov to music by Tchaikovsky, performed by the *Royal Ballet*; 2pm & 7.30pm; Jul 27

EXHIBITION
Design Museum Tel: 44-171-3786055
● Treasures of Fabergé: exhibition *of 40 perfume flasks by the* workshops of Fabergé, Imperial jeweller to the Russian court, from the collection of *Maurice F. Mizzi*. Approximately half the perfume bottles are made of gold, silver and translucent enamel, the other half are gems set in gold; to Aug 11
Queens Gallery Tel: 44-171-9304832
● Leonardo da Vinci: One Hundred *Drawings from the Collection of Her Majesty The Queen*: this exhibition includes preparatory sketches for *paintings such as the 'Adoration of the Magi'* and the 'Last Supper', designs for equestrian monuments, *war machines and costumes for* court entertainment.
Next to these sketches this exhibition features studies *relating to* his enduring interest in water, flight and his studies in anatomy; to Jan 12
Victoria & Albert Museum Tel: 44-171-9388500
● Marvels of Art and Cheapness: Liberty Furniture 1880-1910: a large part of the success of *Liberty and* Co. was derived from their production of "Art" furnishings for the commercial market. This display looks at the furniture in the distinctive "Liberty Style" and the marketing of the Liberty-designed domestic interior through the firm's *catalogues and design handbooks*; to Sep 30

THEATRE
The Pit Tel: 44-171-6388891
● The Devil is an Ass: by Jonson. Directed by Matthew Warchus and performed by The Royal *Shakespeare Company*. The cast includes John Nettles, David Troughton and Christopher Godwin; 7.15pm; Jul 26, 27 (also 2pm)

LOS ANGELES

EXHIBITION
MOCA at California Plaza Tel: 1-213-626-6222
● Ed Moses: the first major retrospective of Moses' work includes approximately 45 paintings and 25 drawings spanning his career, starting with a *group of* largely unknown egg tempera paintings (c. 1952) and ending with a *group of recent abstract paintings*; to Aug 11

MUNICH

CONCERT
Cuvilliés-Theater – Altes Residenztheater Tel: 49-89-296836
● *Members of the Bayerischen Staatsorchester: with conductor Ivor* Bolton perform works by Handel, Telemann and J.S. Bach. Part of the Münchner Opern-Festspiele; 8pm; Jul 26

EXHIBITION
Haus der Kunst Tel: 49-89-211270
● Umbo – Vom Bauhaus zum Bildjournalismus: *retrospective* exhibition devoted to the work of photographer Otto Umbehr, also known as Umbo. The display includes 180 works *from all stages* of his career; to Jul 28

NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Reigakusha: with conductor Sukeyasu Shiba perform classical Gagaku and Takemitsu's In an Autumn Garden. Part of the Lincoln Center Festival; 8pm; Jul 26

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● *American Printmaking 1860-1900*: Winslow Homer and His Contemporaries: an exhibition to *complement the Homer painting* retrospective by providing a context for the artist's printmaking efforts. *Drawn entirely from the museum's* collection, Homer printmaking from his early and late career is shown *along with works by printmakers* active during Homer's career; to Sep 22
● Making Music: Two Centuries of Musical Instrument Making in New York: pianos, organs, automatons, as well as steel drums, an 'ud, a "Mandolira" and a host of other instruments are the subject of this *exhibition celebrating the art and* craft of musical instrument making in the city of New York; to Jul 28

PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Frédérick J. Kiesler: retrospective exhibition devoted to the architect/ *artist Frederick Kiesler (1890-1965)*. The display gives an overview of his architectural designs and ideas and *shows a selection of his paintings*, sculptures, installations, stage designs and other works; to Oct 21

WASHINGTON

EXHIBITION
Arthur M. Sackler Gallery Tel: 1-202-357-2700
● Preserving Acient Statues from Jordan: eight examples of what may be the oldest human sculpture in the Near East, recovered from an ongoing excavation in Jordan, are featured in this exhibition *highlighting conservation and study* of archeological material.
Photographs document the journey *of these ancient plaster statues* dating from the seventh millenium B.C. from their excavation 10 years *ago through the conservation and* treatment process; from Jul 26 to Apr 6

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441**

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(Central European Time)

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FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial *markets*

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Peter Martin

Banks that drag their feet

European banks are chasing up blind alleys as they try to avoid the painful restructuring that has made US institutions stronger and more profitable

On the face of it, few industries are more ripe for rapid restructuring than European banking. Most of the big European economies are hopelessly overbanked, both in terms of branches and institutions. Technology is destroying the rationale for the branch-banking infrastructure. Deregulation has stripped away the profitability of much of the industry's bread-and-butter business. The European single market has opened up the borders. And across the Atlantic there is an object lesson of what rapid restructuring can achieve.

In little more than a decade, the face of US banking has changed significantly. The number of federally insured commercial banks has fallen sharply, from 14,407 in 1985 to 9,941 in 1995. New institutions of national or even global scale have emerged. Four of today's top 10 US banks by market capitalisation were modest regional banks in recent memory. And the big banks that have survived have become stronger and more *profitable*.

The American lesson, and the powerful underlying forces mentioned earlier, from time to time persuade investors that European banks will tread the same path. Yet European banking is remarkably slow to restructure. A flurry of big bank mergers in the 1980s has been succeeded by a sort of grim stasis: it is as if most banks are pausing, exhausted by the effort of surviving the property and corporate-lending crises of the early 1990s. Any energy left goes into cost-cutting in domestic branch networks or bidding for investment banking assets. Mergers of the core business areas, in retail and wholesale banking, seem too much to contemplate.

The European approach is short-sighted. As the American example shows, the greatest scope for cost-cutting lies in the merger of two large overlapping banks. The merged institution can, if it is ruthless enough, handle two banks' customers and assets with one bank's costs. There is scope for such big domestic mergers in most of Europe's economies. But, by and large, these are not taking place.

European bankers are distracted by a series of other temptations – all of which, however, will prove to be blind alleys. One of these culs-de-sac, paradoxically, is the much more ambitious possibility of cross-border deals opened up by European integration. For those banks which feel strong enough to do deals, the temptation of a cross-border alliance takes precedence over the humdrum option of a domestic merger. It may also be more politically acceptable: a domestic merger is always likely to destroy jobs in the pursuit of cost efficiencies, while a cross-border merger will rarely allow the same labour cuts.

Precisely because those savings are absent, however, cross-border mergers are inherently less attractive. They are also fiendishly difficult to achieve. Those banks which have investigated international deals find that they gobble up huge amounts of management time, without much result.

A second blind alley is bancassurance, the attempt to integrate the sales of life insurance and retail banking products. Experience has shown that this approach provides a big one-off increase in sales of insurance policies, as the insurance sales force gets their hands on the bank's customers. It does not greatly enhance the underlying banking business, however, and runs out of steam once the easy insurance sales have been made. Bancassurance has short-term attractions, but is not a strategic solution.

The third, potentially most dangerous, blind alley is the rush into investment banking. The enthusiasm for this business stems from one of European banking's strong points: the universal bank concept originally adopted in many continental countries and now common in Britain too. Because German and Swiss banks, for example, have always handled corporate finance, securities dealing and fund management, they have been protected from the worst of the profit erosion in traditional banking.

That makes the rush to build global investment banks understandable. But it does not make it defensible. Few of the institutions now pouring millions into the pockets of their newly acquired investment bankers will succeed in becoming profitable members of the "global bulge bracket", the top tier of investment banks.

But although investment banking remains top of the European agenda, there are signs that logic is inexorably pushing big domestic mergers closer. One common theme in both the US and Europe has been the absorption of small, local banks by larger rivals. This does not achieve big cost savings, but it does allow best practice to spread rapidly. Such mergers help to encourage the idea of larger deals.

Perhaps the most striking recent example of a large bank bowing to reality was the decision of CS Holding to merge its three domestic retail banking chains. The decision to keep Credit Suisse, Volksbank and Bank Leu as separate presences on Swiss high streets had always seemed quixotic; now the three chains are to become one, under the Credit Suisse Volksbank name. Another straw in the wind was Deutsche Bank's acquisition of a 5.2 per cent stake in Bayerische Vereinsbank, one of the two big Bavarian banks. Deutsche Bank is staying mum about the reasons for the purchase, but it can be taken as at least an indication of interest.

In most European countries, however, rapid consolidation is hampered by the existence of a large sector of unquoted banks – mutual institutions or banks with a controlling ownership by local or national governments. Here there has been some progress. State-owned banks have been privatised in France and Italy. Big British building societies are converting from mutual institutions to quoted companies. The German states, though still intimately involved with their local Landesbanken, will come under increasing pressure to make the most of these investments as their budgets succumb to fiscal crisis. And across Europe, government-sponsored banks find their traditional privileges coming under attack – most recently in France, where the Juppé government seems willing to dismantle part, at least, of the special status attached to Crédit Agricole.

The erosion of such barriers opens the door to big mergers, not least by increasing the commercial pressures on both quoted and unquoted banks. It remains to be seen how rapidly Europe's bankers take advantage of this opportunity. To do so requires more than just a willingness to face down domestic politicians, trade unions and local lobbies. It also demands a willingness to think again about the structure of European banking.

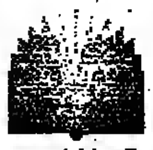
Just how radical that thinking may need to be can be seen by looking at Wells Fargo, the big San Francisco bank. Already a leader in the US trend of setting up bank branches in supermarkets, it is now taking the idea a step further. Thrifty Payless, a drugstore chain, will take over up to two-thirds of the available space in some of Wells Fargo's larger bank branches to handle drug prescriptions and sell over-the-counter medicines and cosmetics.

It is hard to imagine European banks adopting such an approach. Still, the longer they hold back from conventional consolidation, the greater the radicalism that will eventually be required. In the meantime, the definition of an attractive banking market combines a number of otherwise undesirable characteristics. Its participants should be too weakened by recent lending disasters to indulge in the race to lose money on investment banking. They should be relatively inefficient, so as to have lots of scope for cost cuts. They should be in a market where government-sponsored banks are losing their traditional privileges. And there should be one or two particularly vulnerable competitors, to make plausible candidates for merger. All of a sudden, French banks start to look a lot more appealing...

BOOK REVIEW: Lucy Kellaway

HOME AND WORK: Negotiating the Boundaries of Everyday Life
By Christena Nippert-Eng. University of Chicago Press, 343pp, $48

A storm in a teacup on the journey home



Stan drinks a lot of coffee. Seven days a week, at home and at work, he always has a cup at his elbow. Sabrina also drinks coffee, but only when she is to the office. When at home she drinks tea instead.

Keith carries a small pocket diary. In it are the dates of family barbecues as well as his business engagements. Alice has a big calendar on her kitchen wall showing her children's sports days and a separate work calendar by her desk in the office.

In Dave's pocket is a huge bunch of keys which open everything from the office filing cabinet to his garage at home. Patty, on the other hand, carries a neat little keyholder to which work keys are clipped to one side and home keys to the other.

Christena Nippert-Eng, a professor at the Illinois Institute of Technology, argues that these details provide a clue to one of the most important distinctions we make in our lives: between home and work. Out of such observations she has created a fat volume, padded by footnotes and written in the heavy patois of sociology and semiotics.

On the face of it she has made heavy weather out of a pretty straightforward subject. We all know some people like to keep their home life and their work life separate, while others are not so particular.

Yet the more you read about all these little signs and strategies, the more it makes you reflect on your own unconscious ways of dividing up your life. Do you have photos of the wife and kids on your desk? What size are they, what sort of frames are they in and which way do they face?

Do you wear special clothes for work, and change out of them the minute you get home? Do you talk about home when you are at work, and talk about work when at home? Do you invite your colleagues round for dinner, and do you let your children come and visit you at work?

At one end of the scale are "extreme segmenters" who live two parallel lives, who are different people at home and at work. For them an unexpected intrusion from one life into another – a personal telephone call at work or a chance meeting with the boss in the supermarket – can be pretty traumatic.

At the other extreme are people who make almost no distinction between home and work, behave the same way in both places, surround themselves in the office with their children's artwork, date and marry their colleagues, and talk office politics in bed.

Nippert-Eng describes how journeys between home and work allow us to shift from one mental gear into another – or as she puts it: "Commuters exit in an interstructural, transitional, transformational, liminal status." This seems to involve eating a Danish pastry on the way to work to help us gear up, and and ice cream on the way home to help us wind down. So keen is she to make every detail significant she sometimes goes too far: it may not have occurred to her that we eat ice cream on the way home because it is hotter then.

Having described our strategies, she investigates the reasons for them. Here again her answers are not surprising: some of the pressure to integrate or to segregate comes from work, some comes from families, and the rest is a matter of personality.

"Bureaucratic" organisations insist on workers behaving in a regimented way, adhering to an office dress code and timetable. At the other extreme "greedy" organisations suck in a person's entire life, family and all.

Some spouses may jealously bite the heads off any colleagues who dare to phone; others may welcome the intrusion.

So which life is better? Is it healthier to maintain some distance between home and work, or is it better to move between the two almost without shifting mental gear at all? Nippert-Eng replies blandly that both are equally good; what is best is for everyone to have a certain amount of choice.

This is a cop-out: even when people are free to choose they will only be happy if their choice of home/work boundary is in accord with the ideas of the people around them. Given the conflicting demands of employers and families this seems increasingly unlikely to be the case.

It also seems pretty obvious that people put up boundaries when they are not happy in one part of their lives. Hating your job is a powerful reason for never bringing any of it home. Equally a difficult home life is a strong incentive for wanting to forget about it altogether when at work.

In any case there seems little point in discussing the subject of home and work as if it were static. Our notions of home and work have changed in the past few years and surely will continue to do so in the next few.

In the old days there were jobs for life: the man went out to work and the woman stayed at home with the children. Both worlds were certain and stable, and it made sense to *talk about segmenting them*. But in most couples both now work, and everyone is supposed to be flexible enough to deal with changing jobs, redundancy, working from home, self-employment, part-time work and juggling childcare.

People who by nature like to divide their lives up into discrete sections are going to have difficulty adjusting to the new way of work. So the real question is to find some way of keeping some mental distinction between work and home when "work" may be spread out on the kitchen table and "home" may be crawling round on the floor.

Home and Work *is available from FT Bookshop by ringing +44 181 964 1251*

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e.mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

Quality answer to aid world's poorest workers

From Mr Bill Jordan.

Sir, Market liberalisation creates the possibility for a progressive improvement in the living and working conditions of the world's sweatshop workers ("Sweatshops", July 23). However, the benefits of increased export revenues will not reach the poorest unless the hidden hand of the market is reinforced by the hands of justice and solidarity represented by international co-operation between states and between business and trade unions.

To illustrate my point, I refer to a recent case from the US, where the attention of a leading clothing retailer was drawn to the grossly exploitative practices of one of its suppliers, the central American subsidiary of an Asian company, which were clearly contrary to the retailer's own code of conduct. When finally convinced of the veracity of the case, the company said that it would end the contract. This would have resulted in the mainly young women sweatshop workers losing the jobs they desperately needed. The coalition of unions, churches, consumer and development groups involved in the campaign replied that, on the contrary, the appropriate response was to activate the company's well-established mechanisms of quality control over the product to insist that its code on working conditions was also fully observed by the sub-contractor. The company agreed and is now stepping up the independent monitoring of its code for all its suppliers in collaboration with the union-led coalition. FT readers may well be interested to know that Fifa, the international football federation, and the ICFTU are following a very similar approach in talks over the production of soccer balls bearing the federation's logo.

Action by responsible business can help to ensure that the opening up of world markets really does help the poorest workers. In doing so they will help unions and others to campaign against populist politicians who advocate a return to protectionism. Similarly governments have a tremendous opportunity at the forthcoming ministerial meeting of the World Trade Organisation to begin work on finding a "protectionist proof" mechanism for linking the right of access to world markets to the duty to implement basic internationally agreed workers' rights (not western standards as your editorial mistakenly suggests).

Bill Jordan,
general secretary,
ICFTU,
Bvrd Emile Jacqmain 155,
B-1210 Brussels, Belgium

Incentives changing rather than in decline

From Mr Duncan Brown.

Sir, John Kay ("Why piecework went out of fashion", July 19) draws an interesting analogy between the decline in individual piecework schemes on the shopfloor – 25 per cent of which were actually removed in the UK in the 1987-92 period – and the spread of performance-related pay schemes for professionals and executives. He fails to note that the common problem he describes, such as encouraging an undue focus on output at the expense of quality and the individual at the expense of the team, are commonly being addressed by changes in the nature of such schemes rather than by their withdrawal.

On the shopfloor, the proportion of workers covered by incentive schemes has remained broadly constant in recent years. However, schemes with a team-based membership and employing a much broader range of performance measures are now used by more than 25 per cent of the UK companies. The design of an individual output style scheme at Elida Gibbs in Manchester, for example, was associated with improvements in customer service levels from 86 per cent to 99 per cent.

Similarly for executives, few companies are withdrawing performance-related pay schemes. But more than 20 per cent in a recent Towers Perrin survey were changing incentive plans to emphasise team rather than individual performance and use a broader "balanced scorecard" of criteria. Generally, they are finding this a more effective strategy than removing performance pay altogether and reverting to policies of paying for service or for hierarchical position.

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Divine outlook

From Mr James Corcoran.

Sir, The late G.K. Chesterton may have had a better fix on Sister Wendy (Lunch with the FT: "Lovely food is a gift from God" July 6/7) and the Catholic *Weltanschauung* when he wrote:

"Wherever a Catholic sun doth shine
There's always laughter and good red wine
At least I have always found it so
Benedicamus Domino."

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Contempt for UK's artistic heritage is unjustified

From Mr C.W. Raper.

Sir, I am astonished that a paper such as the Financial Times, whose art pages I read with pleasure and interest, should have produced an editorial as contemptuous of the artistic heritage and legacy of the UK as that which I have just read (" 'Saving' art", July 24).

The question of whether the art market should be free is one that is likely to remain a source of contention for as long as a limited number of treasures are fought over by people in many different countries. There are good arguments for and against the repatriation of plundered or exported works of art to their original countries, though I would venture to suggest that the best reason for such a repatriation would be to enable the art to be restored to the original setting for which it was designed – something that would happen very rarely, if ever. While commenting on restrictions on the export of art from the UK, it should be remembered that other countries, notably France and Italy, operate far more restrictive rules.

The statement that really cannot be defended however, is the sweeping comment about "the modesty of [Britain's] own artistic contribution". This is simply nonsense. Even if one were to exclude people from other countries who have made their homes and careers in the UK (and I would argue that one should not), the homegrown talent of British painters, cabinetmakers, sculptors, silversmiths, potters, architects, gardeners and designers has made and continues to make Britain a leading contributor to the artistic heritage of the world. If one adds to the list the role of the British as patrons and collectors (who fuel artistic endeavour), then the influence that the small island state has had is out of all proportion to its size and population.

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مكتبات الأصل

COMMENT & ANALYSIS

FINANCIAL TIMES
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Thursday July 25 1996

Europe needs lower rates

Between 1990 and 1995 the real economy of the European Union expanded *at an average rate of 1¾ per cent*. The US, meanwhile, has grown at a rate of close to 2 per cent. *Neither performance is even close to stellar.* But the EU's is downright miserable. The Bundesbank does not bear all – or even most – of the blame. But it does bear *some of it. It needs to act to* improve prospects now.

The German central bank could start by reconsidering its attachment to its obviously problematic monetary targets. More important would be recognition that inflation is no longer Germany's, or Europe's, biggest problem. Monetary policy should be deployed instead as a counterweight to the fiscal tightening that members of the EU are – on the whole, rightly – embarked upon to meet the Maastricht treaty's criteria for monetary union.

A beginning could be made by lowering the repurchase rate, which has been stuck at 3.3 per cent since February, at the meeting of the Bundesbank council today. With the discount rate of 2.5 per cent, where it has been since April, the German central bank has plenty of room for manoeuvre.

There are few strong arguments against such a move. Pan-German year-on-year inflation was a mere 1.4 per cent in May. The 1996 wage round has come to a close with an economy-wide average increase of only 1¾ per cent in contract wages. The unemployment rate in June was 11.4 per cent, not much better than the 12.4 per cent registered the previous month in France. The exchange rate against the US dollar has strengthened, from DM1.55 in late May to DM1.49 yesterday. The government has also produced a tough draft federal budget.

Monetary growth

Even the growth of German broad money (M3) has started to slow after three-quarters of a year of rapid growth. In June it registered an annualised increase of 9.6 per cent over the average level in the last quarter of 1995 – a sharp fall from the 12.3 per cent rate of growth in the period to March. More important, because of the decline in the money supply during the first part of 1995, the annualised rate of monetary growth from the average for the last quarter of 1994 to May 1996 was only a little above 4 per cent. This is at the bottom of the target range.

All this would seem quite enough to justify the bias towards easing announced by Bundesbank's president, Mr Hans Tietmeyer. The point would be still more obvious if the Bundesbank were to look at European monetary conditions as a whole. What it would then see is an EU unemployment rate of more than 11 per cent; subdued inflation in the economies with currencies closely linked to the D-Mark; still lower monetary growth in those economies than in Germany; and generally low growth.

Signs of recovery

The most obvious argument against further easing is that it would be ill-timed, since the German economics ministry expects growth in the second quarter to make up for the decline in the first. There are indeed clear signs of recovery from the mini-recession of late 1995 and early 1996. But there seems little reason to expect it to threaten monetary stability, either in Germany or the European economies closely linked to it. Growth next year is likely to be in line with the long-run trend and no more.

In sum, the case for further easing is strong. This does not mean the only thing wrong with the European economy is its monetary policy. But it would be far easier to tackle those other problems if the German central bank proved able to sustain steadier growth in nominal demand. In the year to the first quarter of 1996, nominal gross domestic product expanded at a ridiculously low rate of 2.2 per cent. Nominal GDP also expanded at such low rates as recently as 1993.

Europe needs more stable and more buoyant growth of nominal demand. Without it, the movement towards monetary union will be at the expense of the unemployed and the needed fiscal tightening will be as arduous as running up the down escalator. Germany and Europe need a better monetary policy. It is up to the Bundesbank to provide it.

New order at Stock Exchange

Bit by bit, the arcane panoply of rules, privileges and obligations governing life at the London Stock Exchange is being picked apart. After acrimonious rows and the loss of its second chief executive in three years, the exchange at last appears on course towards modernising the system under which it trades shares.

The results, assuming things continue in the same direction, should include fairer competition between market intermediaries and between UK exchanges, more accurate and transparent price formation, and a marketplace better attuned to the needs of the wider investment community.

Yesterday's announcements by the chancellor of the exchequer and the Securities and Investments Board concerning arrangements to maintain liquidity in the market after adoption of its new order-matching system next year are refreshingly straightforward. The privileged exemption from stamp duty on share transactions currently enjoyed by the club of marketmaking firms that dominates the exchange is to be widened to encompass all market intermediaries. At the same time, the exchange is being encouraged to increase price transparency by expanding the proportion of equity trades published immediately to the market.

Both changes will help the exchange in the face of stiffening international competition. The idea of an order-driven market, in which buy and sell orders are matched automatically on a central electronic trading book, generated huge controversy among marketmakers wedded to the existing system whereby they quote prices by screen but strike deals by telephone. But investor opinion has long been moving in favour of a switch.

Selling points

The immediate conundrum faced by the exchange and its regulators was twofold. How do they prevent such a change jeopardising the strong liquidity which is one of the London market's most important selling points, and which the marketmakers play a key role in maintaining? And given that the public order book will coexist with telephone trading, how do they ensure that prices displayed reflect market reality and thus command investor confidence?

The obvious answer to the first question would be to eliminate the current 0.5 per cent stamp duty on all share transactions. Stamp duty is an inefficient and self-defeating tax. Abolishing it would enliven market activity, and would go with the international grain. Even the UK Treasury has affirmed a "long-term" ambition of abolishing the duty.

Tax breaks

No chancellor will readily sacrifice £1.3bn in revenue. But Mr Kenneth Clarke has agreed to the continued use of tax breaks in the interests of liquidity. In choosing what form they should take, the SIB has sensibly decided against obliging marketmakers to "earn" their stamp duty relief by posting continuous two-way prices that would artificially distort prices and dampen business. Instead, it has persuaded the Treasury to extend relief more widely to intermediaries – thus probably eroding the tax take over time and hastening its eventual demise.

On price transparency, the SIB insists that the public order book must be seen to reflect orders executed on the market as a whole. Confidence on that score, it argues, will ultimately depend on the maximum disclosure of trades immediately upon execution.

Privileges which allow marketmakers to delay publication of particularly large trades have long made for obfuscation in this area – though the proportion of trades hidden from immediate view has been coming down of late. The SIB is right to take a robust line. There is no good reason why the wider market should be denied knowledge of any trades once they have been consummated.

The minimum possible rules and maximum possible transparency – these are two principles stock exchange leaders would do well to keep in mind as they put the finishing touches to their new system. In any case, market forces and regulatory pressures look set to continue pushing them in the right direction.

The FT Interview · Alexander Lebed

A fatalist in the line of fire

Russia's new security chief tells **Chrystia Freeland** about the challenges that face his government and his conviction that he is the right man to overcome them

When an obscure provincial general, attracted 11m votes and came third in the first round of Russia's presidential elections in June, many observers were shocked. *But it came as no surprise* to the former maverick officer who promptly pledged support for Mr Yeltsin in return for the chairmanship of the Security Council, one of the Kremlin's most powerful posts.

A broad-shouldered giant who prides himself on his military economy with words, Mr Alexander Lebed is possessed of a somewhat mystical streak when it comes to his own *destiny. The country's most* famous paratrooper says his overnight emergence as Russia's security tsar – and his healthy chance of being elected the country's next president – is *a matter of fate*.

"I am a fatalist, I am convinced that what is written at a man's birth will come to pass," Mr Lebed said in an interview yesterday. "*And, to put it mildly, I have been* present at all the decisive moments in our country's life – in Afghanistan, in Azerbaijan, in Georgia, on the two occasions when I led military drives into Moscow... Now it is time for me to bring order, to make our state a real state, to make it *civilised* and respected."

Not everyone shares Mr Lebed's serene confidence that his rise to power is part of heaven's plan to save Russia. In the five weeks since the maverick officer burst on to the political scene, western and Russian observers have swung wildly between approbation and *suspicion*.

They seem to have settled on the view that the career soldier is still an *immature politician* whose beliefs and behaviour cannot yet be predicted. And many observers have begun to predict that the gruff officer will soon be destroyed by the crafty Kremlin politicians who elevated him in the first place.

Mr Lebed is determined to disappoint them. *In his trademark growl*, he says: "I think I am my own creation. If others wish to pretend otherwise, *that is their problem*."

As for his ability to survive the infamous intrigues of the Kremlin, *he insists: "Don't worry, I feel* totally comfortable where I am. I can talk to everyone."

Yet at the *same time* he *readily* agrees that many of the Kremlin's more long-standing inhabitants wish him ill.

"A large number of enemies always makes a real man more attractive, and of course I have them," said Mr Lebed, whose offices can be reached only after passing through three security checkpoints and who is further protected by hand-picked *personal guards*. "There is misunderstanding, there is opposition, there is animosity. I have been a *commander long* enough to know for certain that you can never be liked by everyone."

The hostility is so great that Mr Lebed muses: "I could be blown up by a bomb, I could be killed by a bullet, the main thing, first of all, is to survive." He takes a deep drag on the *Marlboro Light* cigarettes which he smokes compulsively through an imported cigarette holder designed to filter out most of the *toxins*.

Pressed for details of his enemies, Mr Lebed demurs. "What, you want me to list their *surnames*? I have to work with these people."

At the bustling offices of the Security Council work seems to be the first order of the day. Instead of the surly lethargy which characterises most of the Russian bureaucracy, Mr Lebed's headquarters buzz with an urgency which is frankly military. The *former* general's *time-keeping* is precise and his aides *bound across the corridors* when summoned to meetings.

When Mr Lebed joined the Kremlin *team last month*, he *was hailed* as the saviour of Russian democracy whose popular appeal would help President Boris Yeltsin secure a victory over the communists. But the outspoken retired general swiftly alienated many of his enthusiastic early supporters.

A description of Mormon missionaries as "mould and scum" and the off-hand use of the word "Jew" as a *derogatory* epithet *earned him* immediate rebukes from Mr Bill Clinton, the US president, Mr Victor Chernomyrdin, the Russian *prime* minister, and a bevy of other critics.

It was perhaps predictable: the former general first attracted the media spotlight to his remote garrison in *Moldova* on the *Romanian* border two years ago by describing Mr Yeltsin as a "minus" and praising Chile's *General Augusto Pinochet*. But Mr Lebed is quickly learning self-restraint. He has apologised *to the religious faiths he casually* insulted and he was careful yesterday to balance a reference to the *Russian Orthodox Church with a* respectful allusion to "the other traditional confessions of our land".

Although he and his subordinates are focusing on political survival in the unfamiliar confines of the Kremlin, Mr Lebed is happy to talk about the political philosophy which he hopes to become powerful enough to implement. He had a brief fling in the spring with the emphatically liberal, free-market policies favoured by his campaign aides, many of whom were seconded from the Yeltsin camp to bolster his challenge at the expense of the ultra-nationalist Mr Vladimir Zhirinovsky. But the former general has returned to the tough but pragmatic nationalism which has been his credo since he began to defy Moscow's top brass.

Beneath the sometimes erratic public outbursts which have earned Mr Lebed a reputation as *ideologically difficult to pin down*, he has been a surprisingly firm proponent of the idea that Russia must again *be made strong. But perhaps* surprisingly, he is not opposed to the eastward expansion of the Nato military alliance. Although he thinks it is unwise from the west's point of view, he says it should be a matter of indifference to Russia.

"Personally I am calm about this issue," he says. "*Maybe others want* to be more propagandistic, but I think that Russia simply cannot be aggressive any *more*. We have exhausted our appetite for wars. We do not want to fight any more."

And if Nato is foolhardy enough to build further defences against the Russian paper tiger, Mr Lebed has no objections.

"Russia is not planning to fight anyone. *Truly* this is so. And so this mighty Nato fist is being developed to do battle with the air," he says.

On the campaign trail, Mr Lebed took a similarly pragmatic line on Chechnya, where the war against separatist fighters has dragged on for more than 18 months and claimed more than 40,000 lives. He then argued that the country *should be allowed to leave the Russian federation if its people voted to* do so in a national referendum.

But *today, Mr Lebed, who may be* given responsibility for ending the Chechen war, says he must fall in with *Kremlin policy of continuing* the battle. His earlier views were those of a presidential candidate.

"But I did not become president and instead became a government official," he says. "So to a certain extent I must step away from my earlier convictions. You cannot join an administration and pursue your own personal ideas."

On economic issues, which Mr Lebed is hoping to claim as at least partially coming under his broadly defined mandate to oversee national security, the former general is less footsure. On one hand he insists "you don't need to reject the very idea of reform, the idea of reforms *is good, the idea is strategic*." But on the other, he is very gloomy about the conditions to which Russia's reformist economic managers have reduced the country.

"One fine day not very far off we risk a social revolt, and the ruins of that revolt will bury everything good we have done in every sphere," he says.

"The entire government is sitting on its suitcases, waiting for the new cabinet to be announced; the president's aides have all resigned; the president himself is on holiday; only 60 per cent of planned taxes are being *collected; there* is a very serious decline in production. If we do not begin to take energetic steps, we can expect a major economic crisis in the autumn."

This is hardly the view of a unstintingly loyal Yeltsin subordinate – and a sign that Mr Lebed is still willing to express his own, robust thoughts.

He is also one of the only men bold enough to break with the official incantation – dutifully chanted by everyone from Al Gore, the US vice-president *recently in Moscow*, to the Russian premier – that Russia's president is working as vigorously as ever. Instead, Mr Lebed says his boss "feels a certain moral exhaustion, a moral, emotional and psychological exhaustion". The former general worries that the Russian state will be left rudderless while Mr Yeltsin recuperates.

Mr Lebed says he has a "very business-like, very serious" relationship with Mr Yeltsin. And as an outsider, Mr Lebed will depend on the *president's patronage to build* up an independent position in the Kremlin and to withstand the *inevitable assaults of other would-be successors*, including Mr Chernomyrdin and Mr Yuri Luzhkov, the mayor of Moscow.

Yet as he waits on destiny's next turn, Mr Lebed cannot help but compare his own post-election vigour with the malaise of a president *who has indefinitely retreated to a rural sanatorium*.

If that contrast is not enough to excite Mr Lebed's *formidable ambition*, it at least appears to have influenced the bookstand sales on the first floor of the security chief's offices. The bookseller is selling her last copy of *I am Embarrassed for the Nation*..., Mr Lebed's tough-talking but shoddily produced autobiography which she says has vanished from the warehouses.

But she says it is almost impossible to sell the tome *displayed alongside*: a slickly produced album of Mr Yeltsin's memoirs.

· OBSERVER ·

Bank insider

■ [illegible] continues [illegible] leisure group [illegible] Morin-Postel, a [illegible] banker, as a [illegible] experienced in [illegible] very, [illegible] she's a [illegible] Sir Denys [illegible] broke up [illegible] 15 months [illegible] bolstering Rank's board ahead of the restructuring of the group which many analysts believe is needed – and imminent. Earlier additions have been Peter Jarvis, Whitbread's chief executive, and Hugh Jenkins, former investment manager of the Prudential.

Rank watchers, eagerly awaiting the strategic review expected to accompany the half-year results on August 8, may discern continental ambitions behind the latest appointment. Indeed, as Sir Denys puts it, "continental Europe is an area where we will be making more investments than previously".

Morin-Postel, 49, is at present chairman and chief executive of *Crédisuez*, the property finance arm of Suez, the flagship French industrial holding company now undergoing radical restructuring. She joined Banque Indosuez in 1983 as head of mergers and *acquisitions*.

That experience will no doubt come in handy at Rank, a loose collection of businesses, grouped into four broad divisions, but largely run independently.

Sir Denys insists that he has not picked "the ritual cosmetic woman" *but* "someone very competent". But he adds: "the views of a female for an entertainment and leisure group are hugely relevant. Butlins, retailing – that's really what life is about."

Wages of piety

■ American *journalists, who* approach their profession with high seriousness, have whipped themselves *into a fit of ethical* pique over the fact that *Primary Colors* author Joe Klein tried to avoid admitting he *had written* a bestseller. Now he has been forced to apologise to the profession, and especially to *his colleagues at* Newsweek magazine, for lying about his authorship.

With tears in his eyes and a catch in his voice, Klein begged the pardon of Newsweek staff for *undermining the magazine's* credibility by fibbing in its pages. For the next few weeks, instead of writing his Newsweek column, Klein will spend his time in encounter groups with the magazine's staff. "I want him to hear the full force of your concerns, your confusion and your anger," Richard Smith, the Newsweek president, told a staff meeting.

After this bout of pop psychotherapy, Klein will return to writing his political column. But perhaps it should carry a health warning in future. Not because it *might be lies, but because the* furore seems to have warped his judgment.

Klein says the experience has given him new sympathy for the plight of public figures facing a hostile media spotlight: "Now that I've lived it, I hope I'll show a little *more mercy on this page for the* brave, frail fools and heroes who live our public lives," he wrote in *this week's Newsweek*.

That ought to make for riveting reading.

Nuls points

■ The French government may be desperate to rein in its budget deficit. *But there are limits to its* parsimony. And they are drawn short of Atlanta, Georgia.

The finance ministry has let it be known that it has no intention of levying income tax on the bonuses *to be paid by the ministry of youth* and sport to the nation's Olympic medal-winning heroes. These, by *the way, weigh in at a cool* FFr250,000 for a gold medal, FFr120,000 for a silver, and FFr80,000 for a bronze.

What is more, the sports ministry says it is quite prepared *to bust its FFr7m budget for the* bonuses if the performance of French athletes requires it. Based on the medals count to date, this cannot be ruled out. France was yesterday fifth in the table – much higher than usual – with 13 medals, equivalent to nearly FFr3m in bonus payments.

Barking mad

■ Why does Prince Charles talk to trees? Barbara Schmitz, a German national working in London whose *informal study of how* to get *along* with the Brits has been aired in this column reckons she has just *stumbled across the answer*.

She has been reading *My Four Years in Germany* by James W. Gerard, US *ambassador to the* German Imperial Court in Berlin between 1913 and 1917. He writes: "*on entering the room* the Empress usually commenced on one side and the Emperor on the other *going around* the room and speaking to the ambassador's wives etc... This going round the *room and chatting* with people in turn is called "making the circle" and young members of the Royal *Family are practised in it* by being made to go up to the trees in the garden and address a few pleasant words to each tree, in this manner learning one of the principal duties of royalty."

Financial Times

100 years ago

Anglo-American Telegraph
The half-yearly general meeting of the Anglo-American Telegraph Company took place yesterday in the City of London. The *Marquis of Tweeddale*, the chairman, said:- "The Presidential campaign in America doubtless has a disturbing effect on business, and when that important matter has been disposed of, and the financial policy of the United *States is placed* on a *more stable* basis, we may look forward with confidence to an increase in the *business of commercial* undertakings."

50 years ago

Canada Wheat Growers
Stronger world wheat prices are expected to follow the signing of the Canadian contract with Britain. It is expected to raise initial payments to wheat growers from the present \$1.25 per bushel to \$1.30 or \$1.40, effective from 1st August, when the new crop year begins. The Wheat Board will continue to buy the entire wheat crop, paying the initial price on delivery and giving growers participating certificates entitling them to share the Board's profits. These are expected to be substantial.

FINANCIAL TIMES
Thursday July 25 1996

Free flights and cheap mortgages for civil servants

Bonn agrees incentives for transfer to Berlin

By Judy Dempsey in Bonn

German taxpayers face a bill of up to DM3bn ($1.9bn) in allowances and expenses for the 12,000 civil servants who will be relocated as the federal government moves from Bonn to Berlin.

The allowances, agreed by the cabinet yesterday, cover the first two years of the *Umzug* – the move to Berlin – and include free weekly flights to the family home and low-interest loans for house purchase. All civil servants are scheduled to move by the end of the decade. "In all, the taxpayer will have to pay a total of DM128,000 a year for each civil servant," said Mr Axel Müller, a budget expert at the independent Association of Taxpayers.

This would make a total of just over DM3bn over the two years if all allowances were taken up – though this would involve all the estimated 12,000 civil servants buying houses in Berlin using the mortgage subsidy while still using the free flights allowance every weekend to visit their families in Bonn.

The measures have already been approved by parliament. The Bundestag – the lower house – nodded them through at a late-night sitting on June 27. There was no opposition from the Social Democrats or the Greens even though they have been sharply critical of the DM50bn cost-cutting package which the government wants to introduce next year.

The measures include reducing sickness benefits and having women stay on in work until the age of 65. But it seems that the civil servants' allowances will be exempt from cutbacks.

Mr Klaus Töpfer, the building minister responsible for the *Umzug*, yesterday denied that the civil servants were receiving special privileges, saying it was necessary to offer them an attractive package. He declined to give detailed figures, but insisted that the government was doing everything possible to keep the total costs of the *Umzug* under DM20bn.

The Association of Taxpayers' DM128,000 estimate of the cost of each person's move to Berlin is well above the normal "separation money" paid for removal expenses.

The package agreed yesterday also includes some extra incentives to persuade civil servants to uproot themselves. For two years, they will be allowed to fly home every week at an estimated cost of DM12,000. There will be a removals allowance of DM20,000 and an extra DM48,000 which includes a monthly rental subsidy of DM3 a square metre, a cooker and extra lessons for the children.

The government will offer mortgages to buy property in Berlin at an interest rate of between 2 and 3 per cent, which will amount to a further DM40,000 a year subsidy.

Bank of England to expand supervisory role after Barings

By Nicholas Denton in London

The Bank of England is to hire 100 people, raise pay for specialist staff and spend an extra £8m ($12.5m) a year to strengthen banking supervision after the collapse of Barings bank.

The expansion, announced yesterday, is intended to improve the Bank's command of trading in derivatives and other securities – an increasingly important activity for banks and a common cause of their failure.

The Bank also intends to follow the US Federal Reserve, and the UK fund management industry regulator Imro, in discriminating more rigorously between institutions according to the riskiness of their main activities.

In principle, this could mean that an organisation such as Lloyds TSB, which focuses on retail banking, comes under lighter supervision than other UK clearing banks which have moved into securities trading.

But the Bank said it would continue to occupy the middle ground in international banking supervision, adopting neither the multitude of rules that apply to banking in the US, nor the laisser faire policy of New Zealand.

Mr Howard Davies, the Bank's deputy governor, said the proposed measures would highlight risky activities such as the trading in Nikkei futures in the Far East which brought down Barings with £830m in losses. "That would show up on the risk radar screen much more prominently now than in 1994," he said.

But Mr Jonathan Stone, representative of Barings bondholders who lost money in the collapse, said the Bank was naive in its proposals and should lose responsibility for supervision. "You cannot just throw 100 people at a situation," he said.

The expansion plan comes in response to an eight-month review of supervision by Arthur Andarsen, the accountants, which concluded among other things that staff did not press hard enough when they identified a problem. "People are not experienced enough: that is a fact and we cannot hide that," said Mr Davies. To remedy this, the Bank planned to hire four new senior managers and five specialists, as well as four retired bankers to act as advisers.

Advertisements for the first new posts will appear this week. The Bank, which earlier this year lost Mr Mark Laycock of its markets team and which has difficulty in competing against City bonuses, is also proposing to lift pay ceilings.

While the Bank's current policy limits salaries for mid-level staff to about £50,000, new pay scales under negotiation with staff representatives would allow specialists in products such as derivatives to earn up to £75,000.

The Bank is also to develop computer software for comparative analysis of banks.

Sumitomo loan aid extended to cope with $1.8bn loss

By Emiko Terazono in Tokyo

Sumitomo Bank said yesterday it had extended loans to Sumitomo Corporation to help the Japanese trading house cope with an estimated $1.8bn in copper market losses.

The admission came at a gathering of the Sumitomo clan in Osaka, where 20 Sumitomo group companies agreed to review their risk management systems and Sumitomo Corporation apologised for the embarrassment caused by the copper affair.

It again blamed the losses on Mr Yasuo Hamanaka, its former chief copper trader, who is alleged to have conducted unauthorised trades aimed at controlling world prices. After he was transferred from his post in mid-May, copper prices fell almost 30 per cent in a month.

Yesterday's meeting was the first of the Sumitomo *keiretsu*, or corporate family, since the unfolding of the crisis, which some traders estimate cost Sumitomo Corporation almost $4bn. But traders say Mr Hamanaka made huge profits for Sumitomo during most of the past decade.

The gathering of Sumitomo company presidents, called the *hakusuikai*, is typical of monthly meetings held by the heads of other large Japanese corporate families, such as Mitsui.

Mr Toshio Morikawa, Sumitomo Bank president, spoke on behalf of his colleagues at the end of the conference. "We pledged full and flexible support to Sumitomo Corporation. And we have recently provided them with additional but small loans."

He explained that Mr Tomiichi Akiyama, Sumitomo Corporation's chairman, told the meeting that investigations in the US and the UK would clear the trading house of any involvement in the alleged irregular trading.

However, investigators from the UK's Securities and Investments Board said they were not given access to trading records when they visited Tokyo. Japanese prosecutors have indicated they are distracted by other cases and will not be able to launch a formal investigation into Mr Hamanaka's activities until late this year.

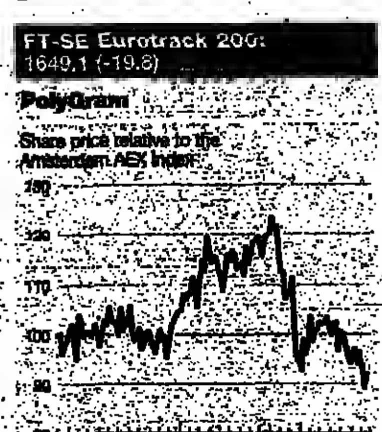
Copper traders and financial companies which acted for Sumitomo insist that the deals by Mr Hamanaka were authorised. Mr Akiyama had publicly praised Mr Hamanaka's efforts several times in recent years and the company said in March that his influence on the market was an important reason for its participation in an Indonesian copper joint venture.

● Mr Charles Schumer, a US congressman, said yesterday he intended to introduce legislation to give the Commodity Futures Trading Commission the power to regulate futures contracts not traded in the US if the contracts allowed delivery in the US.

THE LEX COLUMN

Hollywood thrills

FT-SE Eurotrack 200: 1649.1 (-19.8)



PolyGram is in a tricky situation. It has been labelled a growth stock, but has failed to grow since 1994. And while the management can point to plenty of reasons why profits should pick up, the excuses have been heard before. Currency weakness, this time the yen, has hurt music earnings, along with a weak new release schedule. Then there are problems with discounting in the US and copyright piracy in Asia, which have weakened margins. But the likely pace of growth still looks insufficient to justify a prospective price-earnings ratio of 20.

The key issue for investors, however, is what returns can be generated from PolyGram'e nascent film business. So far, it has invested $800m in a business which lost Fl37m ($22.2m) in the first half. Given strong cash flows from music, PolyGram can afford this diversion. But since film distributors nab most of the profits of a film, PolyGram needs to distribute its own films in the US if it wants to make a success of this business. While the company estimates it would cost only $25m to set up distribution, there are much larger working capital and marketing costs involved. This considerably raises the group's risk profile in an industry that is notoriously volatile, at a time when costs are soaring.

Of course, tha rewards could also be considerable. The development of pay-TV and digital video discs offer huge growth potential for film studios. But the world is full of large corporations whose Hollywood dreams turned into nightmares. At least PolyGram is moving forward cautiously. But until it can generate profits growth to justify its growth tag even Hollywood enthusiasts would do best to wait before investing.

Reuters

For a hot news and information group, Reuters flashed up some pretty uninspiring headlines yesterday. Revenue growth for the first half of 1996 has slowed to 8 per cent, hit by consolidation among its banking and fund management clients. And the next 18 months will see little, if any, improvement. As the new, aggressively priced 3000 range of data products is rolled out revenues from the older 2000 series will suffer. Meanwhile there was no further news on when and how Reuters will return some of its £866m of net cash to shareholders.

A cash handout of around £500m – most likely a special dividend rather than a share buy-back – before the end of the year remains on the cards, even though the group still needs Inland Revenue permission. But with cash generation of £200m a year, Reuters will soon be back in the embarrassing position of having too much cash, earning derisory returns. Some of these extra funds will be soaked up by the roll-out of the 3000 range. But even in a year of heavy investment like 1996, Reuters' capital epending barely exceeds normal depreciation. Management sbould be investing much faster in areas outside the group's core financial markets which are also rapidly turning electronic.

After a blistering start to 1996, the shares have underperformed since April. Even so, they still trade on around 24 times this year's forecast earnings – a 60 per cent premium to the stock market average. Reuters is a high-quality company, but until sales growth picks up again the shares look too high.

BSkyB

Britain's Office of Fair Trading (OFT) has rapped BSkyB over the knuckles. But the media group's lock on the UK pay-television market has not been seriously challenged.

BSkyB's effective pay-TV monopoly has several elements: it dominates the most popular sports and film programming; and it controls satellite distribution. Rival programmers wishing to access the satellite network have to deal with BSkyB. Cable networks also in effect have to accept BSkyB's channels on its terms. Rival programmers could theoretically deal just witb the cable networks. But they cover only 30 per cent of the market. So the commercial proposition is not terribly exciting. Moreover, BSkyB's habit of bundling multiple channels together means that cabla networks do not have much incentive to pay for rival channels.

The OFT is chipping away at this monopoly. BSkyB will not be able to bundle its channels quite as much as in the past – though it is not being required to unbundle completely. The pay-TV group is also having to open up its satellite network a little by making its encryption system available to rivals on published cost-related terms. That said, competitors will still struggle to get hold of suitable satellite transponders for beaming their programmes, though the OFT is trying to get the European Commission to free up this market.

All this will weaken BSkyB's market power only a little. With its domestic monopoly essentially intact and the huge progress made in establishing a similar position in the German market in association with the Kirch group, it is no wonder that BSkyB's shares have been storming ahead.

London Stock Exchange

Goodbye marketmakers; hello market intermediaries. That is to be the new name for privileged operators in London'e equity markets. In exchange for providing "intermediary services", they will be exempt from stamp duty, the 0.5 per cent tax on share transactions. In the past, this privilege was reserved for marketmakers; in future, all intermediaries will benefit.

Widening the tax-free net is welcome. First, it should boost liquidity: market participants will be willing to trade more actively if they are not taxed every time they do it. Second, with more institutions willing to trade actively, the old marketmaking cartel should crumble. Investors should benefit by being able to buy shares at slightly lower prices and sell at somewhat higher prices.

That said, the new regime is an uncomfortable half-way house. What, after all, is an "intermediary"? The official definition – whoever provides an "intermediary eervice" – merely raises anew the question. The most logical answer would be that anybody who provides liquidity should qualify. That would mean not just marketmakers and brokers but also institutional investors, hedge funds and even small shareholders. After all, whenever they trade they provide liquidity.

The snag is that the Inland Revenue will not want such a broad definition because the £1.3bn it collects in stamp duty each year would simply vanish. Nevertheless, any set of rules to restrict the tax relief will be susceptible to avoidance. With luck, tha government will eventually conclude that collecting the tax is not worth the candle.

Lebed pledge

Continued from Page 1

striving to overcome with a relaxed demeanour and willingness to discuss the sacred cows of Russian policy with westerners – Nato is a telling example.

"When western taxpayers see that they are paying huge sums for nothing, then I think that for the leaders of Nato difficulties will appear. But if they have enough money and health they are welcome to it.

"I am calm about this issue," he added.

Danish banks fear over Emu

Continued from Page 1

would face additional problems staying outside Emu. "We thought we could be linked to Target on the same terms as Emu members but it looks more difficult than ever now to provide an arrangement which would satisfy Danish banks," she told the financial daily Borsen.

Mr Knud Soerensen, chief executive of Den Danske Bank, the country'e largest, indicated that his bank was considering moving part of its operations but said this would not affect the group's London operations.

The Danish banks' comments are likely to sdd to concern in London about whether any discrimination could undermine its role as a financial centre.

Most UK bankers and government officials believe it is too early to assess the impact of any restrictions. Mr Roger Brown of the British Bankers' Association said: "We are concerned about any possible discrimination, but we just don't know what the practical implications are."

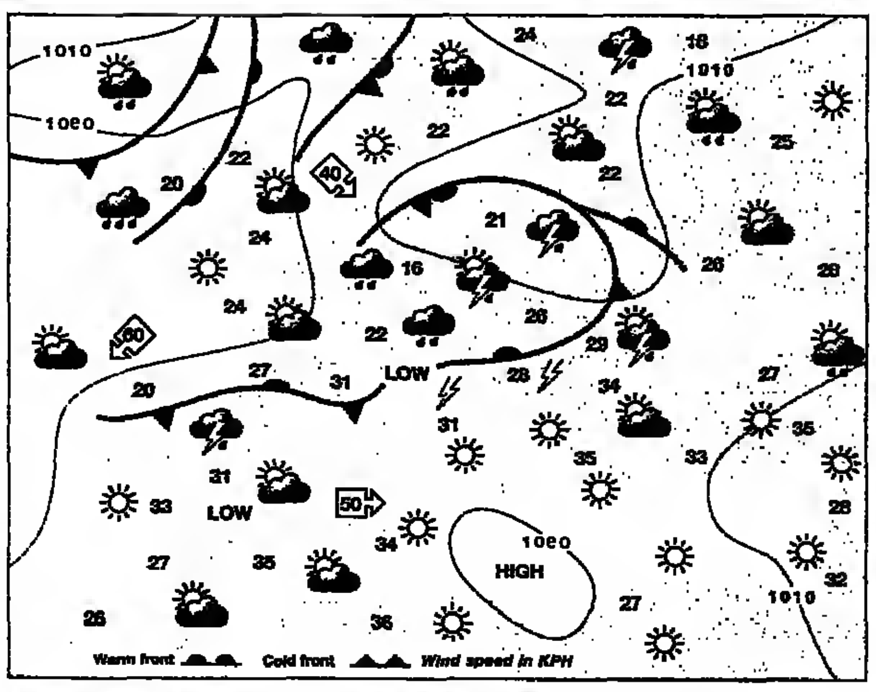
FT WEATHER GUIDE

Europe today

The British Isles will be sunny because of a ridge of high pressure but cloud and light rain or drizzle will move in from the north-west. A large area from the Benelux to Poland will be mostly cloudy with showers. A cold front will trigger thunder storms from Poland to the northern Balkans. The front will be weaker in the Alps with the result that brighter periods and only scattered showers are expected. An upper air disturbance will produce cloud and thunder with rain over south-western France and northern Spain. High pressure will dominate the Mediterranean with sunny and very warm conditions. A ridge of high pressure will promote sunny periods across southern Scandinavia.

Five-day forecast

Western Europe will have sunny periods as a ridge of high pressure builds over the area. It will stay until the weekend. From then on, Atlantic disturbances will move in and cross the British Isles, bringing changeable conditions with rainy periods. An upper air disturbance will move from Spain across the Alps and towards the Balkans by Monday. Although this disturbance is expected to weaken, it will still be accompanied by thunder showers at times.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius															
			Beijing	fair	32	Caracas	fair	31	Faro	sun	27	Madrid	thund	29	Rangoon	rain	29
			Belfast	drzl	20	Cardiff	sun	23	Frankfurt	sun	24	Majorca	sun	34	Reykjavik	rain	12
Abu Dhabi	sun	45	Belgrade	fair	30	Casablanca	fair	28	Geneva	shower	22	Malta	sun	32	Rio	fair	23
Accra	cloudy	29	Berlin	thund	19	Chicago	fair	29	Gibraltar	sun	29	Manchester	rain	21	Rome	sun	31
Algiers	fair	36	Bermuda	thund	31	Cologne	rain	18	Glasgow	sun	22	Manila	thund	28	S. Frsco	sun	27
Amsterdam	shower	18	Bogota	cloudy	19	Dakar	cloudy	31	Hamburg	sun	19	Melbourne	rain	15	Seoul	cloudy	28
Athens	sun	35	Bombay	rain	33	Dallas	fair	37	Helsinki	fair	24	Mexico City	rain	17	Singapore	cloudy	30
Atlanta	fair	33	Brussels	shower	19	Delhi	rain	21	Hong Kong	sun	29	Miami	fair	31	Stockholm	fair	24
B. Aires	fair	15	Budapest	fair	25	Dubai	sun	44	Honolulu	cloudy	31	Milan	fair	31	Strasbourg	shower	23
B.ham	fair	23	C.hagen	fair	22	Dublin	fair	21	Istanbul	sun	27	Montreal	thund	25	Sydney	fair	18
Bangkok	rain	33	Cairo	sun	35	Dubrovnik	sun	30	Jakarta	fair	32	Moscow	shower	22	Tangier	fair	27
Barcelona	sun	28	Cape Town	shower	20	Edinburgh	sun	22	Jersey	sun	19	Munich	shower	17	Tel Aviv	sun	31
									Karachi	cloudy	35	Nairobi	cloudy	23	Tokyo	fair	27
									Kuwait	sun	45	Naples	sun	31	Toronto	cloudy	27
									L. Angeles	sun	27	Nassau	fair	33	Vancouver	sun	26
									Las Palmas	fair	27	New York	cloudy	29	Venice	fair	28
									Lima	cloudy	16	Nice	fair	29	Vienna	shower	24
									Lisbon	sun	26	Nicosia	sun	34	Warsaw	thund	21
									London	sun	24	Oslo	fair	24	Washington	cloudy	31
									Luxembourg	fair	19	Paris	fair	24	Wellington	rain	16
									Lyon	shower	26	Perth	shower	17	Winnipeg	fair	22
									Madeira	sun	24	Prague	thund	20	Zurich	shower	22